How Piëch and López put a bomb under Volkswagen
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Will flexibility create more jobs?
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South Korea
South Korea gets more than it bargained for
Page 10

FINANCIAL TIMES

Europe's Business Newspaper — MONDAY AUGUST [illegible] 1993

UK to reappraise Bosnia evacuation as 39 fly to safety

Thirty-nine injured adults and children were flown from the Bosnian capital Sarajevo for treatment in Britain and Sweden. A further five are expected to be flown out by the Irish government. Britain said it would be "reassessing" the situation as head of the UN medical evacuation committee Dr Patrick Peillod criticised the airlifts claiming that the operation had become a publicity exercise by western governments.

There was no fighting in Sarajevo following the Serb withdrawal from surrounding mountains, but fighting continued between Moslem and Croatian forces in central Bosnia. Page 12

KLM aircraft hijacked: The hijacker of a KLM aircraft on a flight from Tunis to Amsterdam forced it to land at Düsseldorf and demanded the freedom of blind cleric Sheikh Omar Abdel-Rahman, held in the US in connection with the bombing of New York's World Trade Centre. He also demanded the enforcement of United Nations sanctions against Serbia. He released all 131 passengers and four of the seven crew.

Call for world employment charter: UK employment secretary David Hunt has called for a world social charter of minimum employment rights to supersede the European Community's own social charter. Page 12

Nadir was offered RHM stake: It emerged that fugitive businessman Asil Nadir was offered a substantial stake in milling and baking group Ranks Hovis McDougall. Page 13

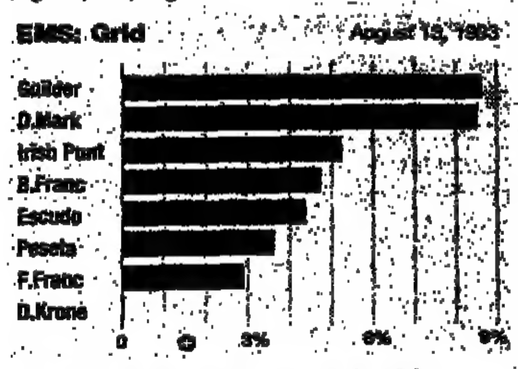
Rush for roubles: Former Soviet republics have been scrambling to obtain more roubles, suggesting that the Russian central bank's crude monetary reform may not have achieved its goal of a monetary divorce. Page 2

Palestinian deportees to return: Almost 400 deported Palestinians, who have spent eight months in no-man's-land between Israel and south Lebanon, accepted an Israeli offer of a phased return. Page 4

Banque Paribas of France plans to become the first European bank to establish a separately capitalised derivatives unit. It has been granted triple-A status in the the highly credit-sensitive market. Page 13

European Monetary System: There are 8.43 percentage points separating the strongest currency in the exchange rate mechanism, the Dutch guilder, from the weakest, the Danish krone after two weeks of the reformed system's operation. That is more than half of the permitted divergence of 15 per cent. The D-Mark was nearing the level where central bank intervention would be necessary to reduce its value. Currencies, Page 23; Lex, Page 12

EMS: Grid August 13, 1993



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. After the reformation of the exchange rate mechanism on August 2, 1993, one member currency can rise against another by as much as 15 percentage points in the system's grid. The sole exception is the divergence between the D-Mark and the Dutch guilder, which remain tied to each other in a 2.25 per cent band.

Babangida set to announce government: President Ibrahim Babangida is expected to announce tonight that the proposed interim government of Nigeria will contain about six military commanders but will be led by a civilian. Page 4

Canadian election expected: Canadian prime minister Kim Campbell is likely to call a general election within weeks after her government persuaded the US to give Canada special treatment under the North American free trade agreement. Page 3

Venezuela approves oil projects: Venezuela has approved two oil projects worth $4.8bn in which international investors will play important roles. Page 3

Electricity to be cheaper: Britain's largest companies should see big reductions in electricity costs after a decision by the power industry to change the way prices are calculated. Page 5

Laurentian Group, Canadian financial services company being merged with Mouvement Desjardins, reported first-half net profit of C$15.8m (US$12m), up from $14.3m a year earlier. Page 15

British Gas is expected to be spared from break-up in the recommendations of the Monopolies and Mergers Commission report due tomorrow. Page 5; Lex, Page 12

Storm hits Martinique: A three-year-old girl was missing, believed drowned, and about 10 people were injured as tropical storm Cindy swept the French Caribbean island of Martinique, leaving 3,000 homeless.

Christie is world champion: Britain's Linford Christie ran the 100 metres in Stuttgatt in 9.87 seconds to become world champion.

Justice Department to consider reviving federal case against Altman

US lawyer acquitted on BCCI fraud charges

By Patrick Harverson and Alan Friedman in New York

US JUSTICE Department investigators will meet this week to consider reviving charges of bank fraud over the BCCI affair after the collapse of the case against Washington lawyer Mr Robert Altman.

He was acquitted on Saturday in a New York state court of charges that he helped the now-collapsed Bank of Credit and Commerce International to illegally gain secret control of a US bank.

The federal charges against Mr Altman, and his colleague Mr Clark Clifford, the 86-year-old former US defence secretary who did not stand trial in New York because of ill health, were dismissed earlier this year at the request of the Justice Department, which did not want its case to interfere with the state prosecution.

Legal experts, however, believe that the failure of New York prosectors to convict Mr Altman on eight fraud and bribery charges would make it difficult for the federal government to revive its own charges, which were similar to those brought in the New York case.

The acquittal on Saturday was a serious blow to Mr Robert Morgenthau, the New York district attorney who has spent three years investigating the complex web of BCCI's activities in the US and abroad. He has won three

Page 3
☐ Acquittal clouds future of BCCI case

convictions related to the banking scandal with hundreds of millions of dollars of fines levied. But the Altman case was the centrepiece of his investigations.

In the US the leadership on investigating BCCI came from Mr Morgenthau, partly because the Bush administration's Justice Department had been noticeably lethargic in pursuing the case.

On Saturday, Mr Morgenthau said that in spite of the verdict his office's investigation of BCCI would continue.

The case had begun to go Mr Altman's way last month, when the trial judge dismissed four of the eight criminal charges against him because of a lack of evidence. After the jury delivered its verdict Mr Altman said the case should never have been tried: "The government put on a five-month trial, and we put on a five-minute defence. There was absolutely no merit to this."

Mr Altman, who still faces civil actions relating to the BCCI scandal, insisted that neither he nor Mr Clifford knew that BCCI had secretly gained control of the Washington-based banking group First American. Mr Altman and Mr Clifford were both senior officers of First American.

Jurors said after the trial ended that the prosecution had not presented enough evidence to convince them of Mr Altman's guilt. They also said that the defence had undermined the credibility of prosecution witnesses.

Defence lawyers argued in their closing statements that Mr Altman was being used as a scapegoat by banking regulators to cover up their own failure to uncover BCCI's illegal ownership of First American.

At the time that Federal charges were dismissed, government officials reserved the right to file the same, or even tougher, charges against the two lawyers if the state trial did not lead to a "successful conclusion".

Yesterday, a Justice Department spokeswoman said Ms Janet Reno, the attorney general, will make the final decision on the matter.

A number of key BCCI figures who have been indicted in the US, including Mr Sweleh Naqvi, the former BCCI chief executive, are in Abu Dhabi or elsewhere, beyond the reach of US prosecutors.

Robert Altman celebrates with his wife, actress Linda Carter (right), and friends after his acquittal on charges that he helped the now collapsed BCCI to illegally gain secret control of a US bank Reuter

World Bank cuts back plan to become more open

By George Graham in Washington

THE WORLD BANK has scaled back plans to increase disclosure of information and to set up an appeals panel to review complaints.

The move has drawn criticism from non-governmental groups that have been lobbying for greater transparency in the institution's operations.

Executive directors representing the World Bank's member countries discussed draft policy papers on the disclosure of its studies and reports, and the establishment of an inspection panel to review complaints about Bank-funded projects last month.

But revised drafts scale down the degree of disclosure, and aim for a more modest inspection panel than once proposed.

In a memorandum attached to the disclosure draft Mr Ernest Stern, the World Bank veteran who is running the institution while Mr Lewis Preston, the president, recovers from surgery, says the proposals are based on the judgment "that the Bank should be more open about its policies and activities and that broader dissemination of information will enhance the quality of our work and strengthen public understanding of it".

However, the new draft has eliminated all references to a reform which would have led to the Bank obtaining blanket approval from borrower countries for the disclosure of documents relating to them.

Executive directors at last month's board meeting insisted on the need for some confidentiality in order to ensure frank discussion with borrowers and among directors.

Mr Stern says in his memorandum that the proposed disclosure procedures will "maintain the presumption of disclosure while providing the governments concerned an opportunity to review appraisal, country economic and sector reports and identify specific issues of confidentiality".

Blanket clearance has been a core demand for advocates of greater transparency, including

Continued on Page 12

VW withdraws from war of words with GM

By Christopher Parkes in Frankfurt

VOLKSWAGEN has withdrawn from the war of words over industrial espionage with car market rival Adam Opel, owned by General Motors, amid fresh media charges contradicting VW's claims that no Opel data ever came into its possession.

The troubled German group, which last Friday commissioned auditors KPMG Deutsche Treuhand to carry out an independent internal investigation, said it wanted to return to its main job: making and selling cars.

"We have done everything possible. We have carried out our own investigation and now set up an independent examination," said Mr Otto Ferdinand Wachs, VW's executive director of public relations. "We are no longer prepared to discuss the matter and every new charge in public."

VW's decision to remain silent coincided with detailed claims in Der Spiegel, the weekly magazine, that 11 Volkswagen trainees had worked for several days at the end of March typing Opel data into computers in a VW property once used to house "guest workers" from Italy.

The magazine also printed alleged excerpts from an affidavit by Mr José Ignacio López de Arriortúa, VW production director, and focus of theft, espionage and fraud investigations.

"Neither before my leaving, in connection with my leaving GM, nor afterwards did I give secret GM/Opel information or data to Volkswagen," the extracts said. "In particular I neither inserted nor asked for any secret data to be inserted in VW computers . . ."

The reported contents of the affidavit suggested a further shift from his earlier position that he and his colleagues – three of whom are also under investigation – took no secrets from GM and Opel, the US group's German subsidiary, when they left in March.

All VW's recent public relations efforts have been focused on dispelling the suspicion that it has been involved in spying.

On August 6, the VW supervisory board said an internal investigation had found nothing to warrant charges of industrial espionage. That statement was accompanied by an admission that "possibly" secret documents had been destroyed in Wolfsburg at Mr López's suggestion along with personal effects from his former Opel office, and a declaration of "unaltered trust" in him.

Mr Wachs could not comment on reports that Mr Klaus Liesen, chairman of the company's supervisory board, was to work full-time with the executive management to help it through the current crisis.

Workers put trust in López, Page 2
Warriors in war of words, Page 28

European monetary union could hit jobs says EC study

By David Goodhart, Labour Editor, in London

EUROPEAN monetary union could cause a substantial rise in unemployment according to an internal European Commission study which was considered too critical to be published.

The report said that larger scale regional aid would be needed within the EC to tackle unemployment in uncompetitive areas after the introduction of Emu.

The study, on the employment effects of monetary union, was produced last year for the then social affairs commissioner, Ms Vasso Papandreou.

Although the Commission, and DG 5, the social affairs directorate, are still committed to the Emu timetable, a significant number of officials in DG 5 have privately welcomed the likely delay of Emu and even the recent loosening of the exchange rate mechanism.

"Quite a few of us here are highly relieved that Emu looks as if it has been held up, given the sort of impact it could have on employment," said one.

Some of Europe's main trade union centres, which have considerable influence in DG 5, are also starting to review their support for Emu. The European Trades Union Congress still backs Emu, but Britain's TUC, for example, openly expresses doubts about when it can be implemented and which countries should qualify.

The Commission study says that Emu will require greater regional transfers than those planned under the EC Cohesion Fund. Without such transfers a high degree of national fiscal flexibility will be needed if growth and employment are not to be adversely affected.

It warns: "The removal of the possibility of exchange rate adjustment when full monetary union is established will eliminate a major means of correcting supply imbalances across the Community and of restoring the competitiveness of particular countries or regions which suffer losses in trade shares.

"But the Maastricht treaty seems to rule out fiscal flexibility and to insist instead on compliance with the arbitrary ceilings imposed on budget deficits and government debt."

The study also says movements of labour between countries will not compensate for differences in employment opportunities and that disparities must be resolved by larger regional transfers.

Doubts about the employment impact of Emu are commonplace outside the Commission but still highly controversial even inside DG 5 which thinks of itself as Europe's labour ministry.

DG 5 has been dominated by French officials who have not wavered in their support for Mr Jacques Delors, European Commission president, on monetary union or the social chapter. But the combination of a new social affairs commissioner, Mr Padraig Flynn of Ireland, a centre-right government in France, and the current emphasis on competitiveness, has led DG 5 to take more interest in labour market flexibility.

Austria	Sch30	Germany	DM3.30	Malta	Lm0.60	S.Arabia	SR11
Bahrain	Din1.250	Greece	Dr300	Morocco	MDh13	Singapore	S$4.10
Belgium	BFr65	Hungary	Ft172	Neth	Fl 3.75	Slovak Rp	KSL45
Bulgaria	Lw25.00	Iceland	IKr215	Nigeria	Naira45	Slovenia	SLT220
Croatia	HRD6700	India	Rs40	Norway	NKr16.00	South Africa	R12.00
Cyprus	C£1.90	Israel	Shk5.90	Oman	OR1.50	Spain	Pta210
Czech Rp	CZK45	Italy	L2700	Pakistan	Rs35	Sweden	SKr15
Denmark	DKr15	Jordan	JD1.50	Philippines	Pso45	Switz	SFr3.20
Egypt	E£4.50	Kuwait	Fils.600	Poland	Zl 22,000	Syria	S£50.00
Finland	FM12	Lebanon	US$1.25	Portugal	Es215	Tunisia	Din1.250
France	FFr9.00	Lux	LFr65	Qatar	QR12.00	Turkey	L8000
						UAE	Dh11.00

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Size and viability of future state depends on will of the international community

Bosnian foes square up over maps

By Laura Silber in Geneva

ANY WESTERN hopes that *international mediators Lord* Owen and Mr Thorvald Stoltenberg can broker a quick settlement to the bloodshed in the former Yugoslav republic of Bosnia-Hercegovina are unlikely to be fulfilled.

When Bosnia's President Alija Izetbegovic returns to the peace talks today, he will face Serb and Croat adversaries *who are only willing to negotiate* on the basis of military gains during the 17-month war.

However, Mr Izetbegovic, a Moslem, reiterated at the weekend that he would only endorse a settlement which gave his Bosnian republic about 40 per cent of the territory of the proposed "union" of three ethnic republics. The *new Bosnia, he said, would* have to encompass land currently held by Serb forces, which until the outbreak of war was mostly Moslem.

Amid seemingly irreconcilable differences, the parties will today sit down to discuss the maps. Talks on future borders were stalled for two weeks while Serb political and military leaders played cat and mouse with the international community over their pledge *to hand over the strategic* Mount Igman, captured during the talks. Serbs scoffed at Mr Izetbegovic's boycott of the peace process and ignored threats of military intervention.

At the weekend Serb forces finally withdrew from Mount Igman, which overlooks Sarajevo, but Mr Radovan Karadzic, *Bosnian Serb* leader, believes his military superiority will dictate the terms of a peace agreement.

Mr Izetbegovic envisages that most of eastern Bosnia, which shares a frontier with Serbia and was Moslem before the war, will be part of the future Bosnian republic.

Mr Karadzic says "this is out *of the question*". He claims almost all of eastern Bosnia, under Serb control except for three remaining Moslem pockets, proclaimed UN "safe areas". Serbs need the frontier territory in order to form a Greater Serbia.

Mr Izetbegovic insists that his Bosnian republic must have access to the northern River Sava and to ports on the Adriatic Sea. Lord Owen has backed this demand.

However, Mr John Zametica, Bosnian Serb spokesman, says it would be "impossible for Moslem territory to have a physical outlet on the Sava and Adriatic".

Serb leaders also insist on Sarajevo's partition. Lord Owen seems to back the idea that the self-styled Serb state has a legitimate right to parts of the city.

Mr Izetbegovic believes this would amount to the death of Bosnia. He will insist that Serb forces lift their 17-month siege around the capital when the talks get under way.

"Without fair maps, there is no deal," Mr Izetbegovic says, stressing he had accepted ethnic partition when faced with the alternative of more war.

But he lacks power to break the Serb stranglehold. The size and viability of his future state depends on the will of the international community to provide the muscle to back a settlement.

Pledges from foreign powers face a crucial test. Mr Karadzic has repeatedly threatened that if Mr Izetbegovic rejects his offer of a land-locked republic comprising isolated pockets of territory, "the Moslems will be left with nothing at all".

Bosnian Serb leaders privately boast they will make life so unpleasant in any union that the Moslems would soon seek its dissolution. The mediators must realise the survival of the Bosnian republic cannot depend solely on the goodwill of hostile Serb and Croat neighbours, but will need international enforcement.

Associated Press

Amra Ramic and her mother Samira in Sarajevo yesterday before their evacuation. Amra has a spinal tumour

VW workers put their trust in López

By Judy Dempsey in Wolfsburg

EVERYTHING is concrete in Wolfsburg: the town hall, the post office, the shops, the tidy apartment blocks.

The uniformity confirms that the visitor is in a company town. For Wolfsburg has been dominated by Volkswagen, Germany's second largest industrial group, since the foundation stone was laid in *May 1938 for its car factory.*

"Wolfsburg is Volkswagen," said Ms Christine Noack, a town hall official. "Every family has some member working at the plant. Our past and future is linked to Volkswagen."

The local swimming pool is named after Mr Ferdinand Porsche, who engineered the original *"people's car", the* beetle. Volkswagen has built the athletics track and has helped build and finance the town's housing for 129,000 inhabitants.

But for the first time since the second world war, the locals talk about unemployment. "We keep hearing about how uncompetitive we are, that we have to cut costs," said one worker.

The problem is that the executive brought in to cut those costs, Mr José Ignacio López de Arriortúa, is under investiga*tion for allegedly acquiring* confidential documents from General Motors, his previous employer.

Mr Ralph Sieber is an outgoing, single, 28 year-old, who has spent 12 years working for VW. But he is worried about the future. "I hear that López can make VW great again," he said. Mr Sieber admitted he had no idea whether the allegations against Mr López were true. "I don't know what to believe. This public dispute is not good for our image."

A similar concern about VW's tarnished image, and a faith in Mr López's talents, is shared by workers coming off the morning shift.

"I'm confused about the whole scandal. I want López to put things right. Its the first time *I have questioned* my security. We have to offer our children some hope," said Mr Harold Pfeiffer, a 51-year-old technician.

However, VW's public relations personnel are keen to project the culture of abiding corporate loyalty. "The board has thrown its support behind López. Everybody is innocent until proven otherwise," said Mr Otto Ferdinand Wachs, VW's executive director of public relations.

"Of course, none of this is good for our *domestic or international* image. Some of our critics say we have over-reacted in our response to these allegations about industrial espionage. But that is not the issue," he says.

"This row is not so much a confrontation between VW and General Motors/Opel. It is about the personality of Mr López. GM is hurt because *López left.* López made General Motors and Opel much more competitive. GM knows that López can make VW leaner and *more competitive. Piëch* [VW's chairman] and López make a great team," says Mr Wachs.

"And after two, three, or four years with López, VW will be much more competitive. So the other side has only one choice: discredit López. In that sense, it is an industrial confrontation between two main competitors."

Indeed, Mr Wachs and his colleagues asked whether GM might itself have planted the documents. "We wonder about it. Look, López and VW have no need of these documents," said Mr Wachs. "But if he is forced out, the chance to create the 'third industrial revolution' will have been lost, and with it the chance to help the industry get more competitive. I hope he will pull through."

Rebuff for Pasqua over foreigners

By Alice Rawsthorn in Paris

MR Charles Pasqua, France's hard-line interior minister, yesterday criticised the constitutional council for its decision *to block some of his proposals* to curb illegal immigration.

The council, which vets all legislation passed by the French parliament to ensure it *conforms with the constitution*, on Saturday vetoed eight of the 52 measures proposed by Mr Pasqua on the grounds that foreigners would be denied the basic rights available to anyone on French soil.

The rejected measures include banning foreign students from bringing their families to France and allowing local mayors to try to postpone, or forbid, suspected marriages of convenience between foreigners and French citizens. The council also opposed Mr *Pasqua's controversial* proposal to extend the detention periods of foreigners who can not be deported because they have no identity papers.

Mr Pasqua, renowned in France for his draconian views and forthright manner, said the council's decision was "politically motivated" and that "it does not correspond to the wishes of the majority".

However, he said he would comply with its request to revise the vetoed measures and would present new proposals to parliament when it reconvened in autumn.

Immigration has emerged as one of the most controversial domestic issues in France since the centre-right Balladur government took power in March. There are now about 4m foreigners living legally in the country and up to 1m illegal immigrants. Economic recession and the influx of émigrés from eastern Europe has heightened concern.

Henri Gauthier

Charles Pasqua: renowned in France for draconian views

INDEPENDENCE AWAITS TREATY

Bank of France's autonomy delayed

By Alice Rawsthorn

THE LAW making the Bank of France independent of the French government must be postponed until after implementation of the Maastricht treaty on European union, according to a ruling by the *French constitutional council.*

The ruling, which should delay the legislation until after a European Community summit in late October, comes at a sensitive time.

The French central bank is not only burdened by a deficit on its foreign exchange holdings following its unsuccessful efforts to defend the franc, but is poised for a change of governor.

Mr Jacques de Larosière, the present governor, is expected this week to be appointed president of the Bank of European Reconstruction and Development in London and to be replaced at the Bank of France by Mr Jean-Claude Trichet, a *highly respected financier* who is now director of the Treasury. He was previously an aide to Mr Edouard Balladur, now the French prime minister.

The independence of the Bank of France, required under the terms of the Maastricht treaty, has been one of the main legislative projects *undertaken by the French cen*tre-right government since it took office this spring. The legislation was passed by parliament earlier this summer but requires the constitutional council's approval before implementation.

The council's ruling means any move will have to wait until Germany has ratified the Maastricht treaty. The German parliament has already done so and the treaty is now awaiting approval by the German constitutional council, which is expected to announce its decision by early October.

A European Community summit, which will finally endorse the treaty, is scheduled for the end of that month.

Ex-king sails in to test Greek waters

DEPOSED King Constantine of the Hellenes says he is just having a holiday in Greece, for the first time since the monarchy was abolished in a referendum in 1974, writes Kerin Hope in Athens.

But his cruise aboard a Greek shipowner's yacht, together with his wife, Princess Anne-Marie of Denmark, and five children, is stirring controversy by resembling a royal progress more than a family excursion.

The left-wing opposition expressed outrage that the government allowed the former king to come home. Mr Andreas Papandreou, the Socialist leader, demanded his immediate expulsion. One newspaper editorial wondered why his two eldest sons, both in their 20s, were not arrested on arrival and taken off to start military service, still compulsory in Greece.

A judge in Thessaloniki last week ordered an investigation to determine whether the ex-king had committed any treasonable acts while on Greek soil, such as inciting citizens to riot.

Even the government panicked when the ex-royal family disembarked in northern Greece and set off to visit soldiers manning a border post on the frontier with Macedonia. Their jeep had to turn back after finding the road blocked by embarrassed local police officers.

The minority of Greeks who admit to being monarchists have no trouble keeping up with the ex-king's activities. His trip is being exhaustively covered by a private Greek TV channel, owned by another shipowner.

Rexrodt in bid to free shop opening

By Quentin Peel in Bonn

GERMANY'S highly restrictive laws on shop opening hours look set to become a new political battleground, in the campaign to liberalise the German economy and make it more internationally competitive.

Mr Günter Rexrodt, the economics minister and leading member of the liberal Free *Democrats*, promised yesterday to try to scrap the laws, or radically liberalise them, after the elections next year.

The move would be fiercely resisted both by German trade unions and by traditionalists in the churches, but would be welcomed by consumers and working couples.

The present law requires all shops to close by 18.30 on weekdays, and 14.00 on Saturdays, with a ban on all evening and *Sunday* trading. They are allowed to open late on Thurs*days, until 20.00, and on* every first Saturday in the month. The only exceptions are at garages and railway stations, where a growing variety of goods is now being traded throughout the day.

No moves are possible before the 1994 elections, because the sensitive subject of shop opening hours was not included in the agreement negotiated by the coalition parties – including Chancellor Helmut Kohl's Christian Democrats, and the conservative Christian Social Union from Bavaria – for the current parliament.

Mr Kohl showed his own caution last night, in spite of his commitment to more liberalisation, when he spoke out in a television interview against Sunday working. He said it was essential to liberalise working hours to obtain longer machine running times – Germany has the shortest in the industrialised world – but not at the expense of Sundays.

Mr Rexrodt, however, told the Welt am Sonntag newspaper that the restrictions on trading hours were a fundamental political error, dating from the 1950s.

"The time is ripe to scrap the law on trading hours, in the next legislative period, or at least to liberalise it radically," he said.

With more time to shop, he said, *consumers could promote* competition in the retail trade, with more part-time jobs resulting from flexible hours.

Arab hijacks Dutch aircraft

AN Arabic-speaking man claiming to have a bomb hijacked a Dutch aircraft with 138 people aboard yesterday. He forced it to land in Düsseldorf and demanded to be flown to New York, AP reports from Düsseldorf. It was not clear whether *the man was armed.*

He was said to have demanded the US free a blind Islamic cleric, Sheikh Omar Abdel-Rahman, linked to the bombing of New York's World Trade Centre.

All passengers and four of the seven crew members were released as the KLM aircraft, which had been en route to Amsterdam from Tunis, Tunisia, sat on the tarmac at Rhein-Ruhr Airport.

The aircraft, a Boeing 737-400, has a range of 3,800 km and would thus have to make *an intermediate refuelling stop* to reach New York. It would first, however, require refuelling in Düsseldorf.

Shortly before 1300 GMT yesterday, the hijacker gave the aircraft's captain a note in English saying he would blow up the aircraft if it were not flown to New York, according to KLM in Amsterdam.

The aircraft landed in Düsseldorf half an hour later. By 1530 GMT all but three of the crew members – the pilot, a co-pilot and a steward – had been freed, the airport official said.

Authorities said no one had been hurt. The hijacker was demanding that the aircraft, which was surrounded by security forces and parked in front of a hangar, be refuelled.

Police were negotiating with the hijacker by radio.

Romania's striking train drivers defiant

ROMANIA'S railways remained at a near standstill last night as train drivers continued to defy last Friday's supreme court decision to suspend *their strike for* 30 days, writes Virginia Marsh in Bucharest.

All but a few of the country's 18,000 train drivers supported union calls to continue the strike which began last Wednesday, Radio Bucharest said.

The strike, considered the most serious labour conflict since the overthrow of the Ceausescu regime in 1989, has blocked rail traffic through the *Balkans and left thousands of* Romanian holidaymakers stranded in train stations around the country. However, the government has made little attempt to mediate, or provide emergency alternatives, even though many Romanians depend on public transport.

Moscow's monetary reform traumatises republics

Russia's withdrawal of pre-1993 banknotes earlier this year has not had the intended result among its neighbours, writes Leyla Boulton

FORMER Soviet republics have been scrambling to agree terms with Moscow to obtain more roubles, suggesting that the Russian central bank's crude monetary reform may not have achieved *its goal of a monetary divorce.*

Although the main damage caused in Russia by the withdrawal of pre-1993 banknotes was psychological, the operation was a blow for neigh*bouring republics.* They had, in recent months, been conducting much of their trade with Russia with pre-1993 banknotes ahead of western-style credit agreements to finance energy imports from Russia.

Most important, the operation does not appear to have prompted the republics either to cement their independence with their own currencies, or to keep the rouble using budgetary, monetary, and customs policies dictated by Russia.

When the central bank dropped its rouble bombshell at the end of July, only the three Baltic republics and Kyrgyzstan had introduced their own fully-fledged currencies. Ukraine and Georgia, and to a lesser extent Belarus, had introduced their own surrogate currencies which were everything but convertible.

Turkmenistan and Azerbaijan, which have their own energy supplies, promptly declared they *intended* to part with the rouble, but the signs are the others will continue to delay a decision.

To enable salaries to be paid and goods to be purchased domestically, Uzbekistan, Kazakhstan, *Armenia* and Tajikistan have said the old roubles will remain legal tender at home. But to avoid a breakdown in trade and to obtain some new "real money", they have been conducting feverish negotiations with Russia to secure new banknotes, before finalising conditions for using the rouble as their own currency.

Cynics say there is nothing to stop republics such as Uzbekistan, which has already received Rbs50bn in new banknotes, from taking the new notes as a free gift from Russia and then introducing their own currency.

Meanwhile, explanations of what the policy was meant to achieve, and what is being negotiated with the republics, remain confused.

Mr Alexander Khandruyev, deputy chairman of the central bank, said on Friday Russia wanted to create a monetary and economic union whereby other republics would have their own currencies but conduct trade with the Russian rouble. In the meantime, he said, Russia had to "help" republics like Kazakhstan, which were not yet ready to introduce their own currency.

Such help could involve printing their own currency for them, and might involve giving them shipments of new rouble banknotes.

Given the problems generated for the republics by Russia's sudden change of policy in July, they should be keen to introduce their own currencies. But, while a national currency is a true sign of independence and gives a republic the tools to pursue an independent economic reform policy, it is fraught with risks.

The arguments against a national *currency include painful macro-eco*nomic policies needed to support a sound currency, which Estonia has achieved, but Ukraine, for instance, has not. Another powerful incentive for sticking with the rouble could be that those republics introducing their own currency will have to pay world prices for energy supplies from Russia.

The confusion in Belarus, where the central bank has been considering its own currency while the government has been looking at monetary union with Russia, reflects the difficult choices facing a republic heavily dependent on Russian energy to run its industry.

Delegations from Armenia and Belarus were in Moscow last week for talks. Mr Vladimir Manoyan, a government spokesman for Armenia, pleaded an absence of reserves (the country is spending most of its money on supporting the war with Azerbaijan) and an economic blockade as special reasons for sticking with the rouble for now.

But while accepting that Armenia, Tajikistan and Moldova – all small states involved in political and military strife – were special cases which could keep the rouble, Mr Khandruyev said the aim of talks with Belarus was different.

Because Belarus had already introduced its own currency when it started printing coupons to make up for a shortage of rouble banknotes last year, he said details now needed *to be worked out on* how, for instance, it would pay for Russian energy supplies.

On the domestic front, Mr Khandruyev said the objective of forcing individuals to place more than Rbs100,000 in bank accounts, at interest rates far lower than inflation, was to make entrepreneurs declare untaxed revenues. But implementing the policy is proving fraught with difficulties.

Perhaps the only positive outcome of the rouble move is that it has tested the tender shoots of a growing civil society, with the Russian Association of Banks asking the constitutional court to examine whether the move violated property rights.

NEW regulations are to go into effect today fixing the exchange rate of the Ukrainian currency to the dollar for some trade-related dealings, writes Chrystia Freeland in Kiev. Ukrainian enterprises, which are obliged to sell 50 per cent of their hard-currency earnings to the government, will be reimbursed at the fixed rate of 5,970 coupons to the dollar.

The change is part of the government's attempt to obtain enough hard currency to offset the country's growing balance-of-payments crisis, triggered by Russia's shift to charging world prices for its oil exports to other former Soviet states.

However, top government reformers criticised the move as a throwback to the days of central planning and said it would encourage capital flight from Ukraine.

Under the old rules, enterprises were compensated for the hard currency they were obliged to sell to the government at a floating exchange rate determined by twice-weekly hard currency auctions held at the central bank.

The new regulations allow enterprises to trade dollars above the 50 per cent surrender requirement at floating rates.

They also allow Ukrainian citizens to buy or sell foreign currency in unrestricted quantities at the floating rate.

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Counting the cost of trade impasse

By Frances Williams in Geneva

CONSUMERS worldwide are paying billions of dollars in higher prices for many goods and services because of governments' failure to conclude the Uruguay Round of global trade talks, the General Agreement on Tariffs and Trade says in a report published today.

The report marks another step in the campaign by Gatt's new director-general, Mr Peter Sutherland, to convince political leaders and a wider public of the benefits of a swift conclusion to the long-delayed negotiations. The round, launched in 1986, is now due to end in mid-December, three years behind schedule.

GOVERNMENT SUPPORT FOR AGRICULTURE

	$bn total	$ per head
Australia	1.8	89
Austria	4.2	530
Canada	9.1	330
EC	155.9	450
Finland	4.5	910
Japan	74.0	600
New Zealand	0.1	15
Norway	4.1	970
Sweden	3.2	370
Switzerland	5.8	840
US	91.1	360
OECD Total	353.7	440

Source: OECD

Commenting on the report, which draws together the results of independent research, Mr Sutherland said virtually all protection meant higher prices. "It is high time that governments made clear to consumers just how much they pay – in the shops and as taxpayers – for decisions to protect domestic industries from import competition."

Gatt notes that European Community consumers each paid an average of $450 (£302) last year in higher prices and taxes to support EC farmers, according to the OECD. For the US, the cost was $360 per head, and for Japan $600.

For clothing, Gatt estimates based on earlier studies suggest that protection may now be costing a family of four up to $420 a year in the US, $220 a year in Canada and $130 a year in Britain.

High trade barriers imposed by the EC on imports of electronic goods cost consumers almost $1.3bn a year, according to Britain's National Consumer Council.

Yet trade protection, which hits poor households hardest, cannot be justified as an effective way of saving threatened jobs, Gatt argues.

The Uruguay Round, if successful, will cut tariffs by at least a third, eliminate quotas and many other restraints on trade, reduce farm subsidies and strengthen Gatt's fair trade rules.

Canada hails victory on Nafta talks

By Bernard Simon in Toronto

CANADA'S Progressive Conservative government is congratulating itself on a big political victory in persuading the US to give Canada special treatment under the new environmental and labour side-accords to the North American free trade agreement.

With prime minister Kim Campbell expected to call a general election within the next few weeks, the deals have given her another opportunity to distance herself from the unpopular, pro-Washington record of her predecessor, Mr Brian Mulroney.

Under a last-minute compromise, Canada won the right to refer environmental and labour disputes to its domestic courts as a last resort, rather than face a suspension of Nafta trade benefits.

At the end of last week, Mr Tom Hockin, Canada's trade minister, said: "I could not tolerate that option for Canada because we negotiated Nafta to knock down trade barriers."

As a result of a compromise reached at close to midnight on Thursday, any dispute involving a Canadian company will be referred in the last resort to the Canadian courts.

Mr Hockin said all three governments envisaged that trade sanctions and referral of disputes to the courts "will hardly ever happen".

Canadian trade officials however, have played down the importance of the dispute-settlement mechanism in the side-deals. They said the strength of the deals lay more in the machinery for co-operation and consultation than in their punitive measures.

The dispute settlement mechanism can be invoked only in cases where it appears that one of the three governments is consistently failing to enforce the labour or environmental standards set down in domestic law.

Although companies and individuals will be able to submit complaints, only the three governments will be able to invoke the complex dispute settlement mechanism.

Action against individual polluters falls outside the scope of the side-agreements and remains the responsibility of the host government.

The Canadian parliament has already passed legislation implementing Nafta. It will not be proclaimed law however, until the agreement has been ratified by the US and Mexico.

The side-deals will require only a minor amendment to an existing law.

However, Canada's provinces, which have jurisdiction over large areas of labour and environmental policy, will not be bound by the agreements until they sign on.

The opposition Liberal party said the side-agreements failed to satisfy its objections to Nafta. A spokesman said a Liberal government would seek to renegotiate the agreement to give Canada a better deal on such issues as energy, subsidies and dispute settlement.

Caracas approves two oil projects

By Joseph Mann in Caracas

THE Venezuelan Congress has approved two oil projects worth a total of $4.8bn (£3.2bn), in which international investors will play an important role.

The two joint ventures involve the production, upgrading and international placement of heavy crude oil from Venezuela's Orinoco Belt, the world's largest accumulation of heavy oil and bitumen.

In both projects, the Venezuelan partner will be Maraven, a subsidiary of Venezuela's national oil company, PDVSA.

Conoco, a unit of E.I. du Pont de Nemours, will hold 49.9 per cent equity in one project that calls for total expenditures of $1.7bn. The promoters plan to produce 120,000 barrels per day of heavy crude oil and use a delayed coking process to make lighter crude that can be processed by a Conoco refinery in the US. Maraven will also have 49.9 per cent equity.

In the other project, which has a projected cost of $3.1bn, the international partners will be France's Total and two Japanese companies, Itochu and Marubeni.

At present, Total is expected to have 40 per cent of equity, Maraven 35 per cent and two Japanese partners 25 per cent. Maraven said the equity composition of the projects could change if new international partners were added.

On August 10, the Congress opened the door to foreign investment in Venezuela's oil and gas industries for the first time since the 1976 nationalisation.

Acquittal clouds future of BCCI case

Altman case raises fundamental questions about bank fraud, writes Alan Friedman

THE acquittal on Saturday of Mr Robert Altman was a serious blow to the prosecutors who have been toiling for years on the case from the office of Mr Robert Morgenthau, the respected Manhattan district attorney who has led the world in tackling the corruption at BCCI.

The development also raises fundamental questions for US law enforcement officials that are both specific and general in the BCCI case. First, there is the issue of where to go from here on BCCI. Then there is the broader matter of how bank regulators and prosecutors can best tackle international bank fraud when it transcends national boundaries.

The joint indictment 13 months ago of Mr Altman and of Mr Clark Clifford, the former US defence secretary, was the high-water mark in the campaign to prosecute those suspected of involvement in BCCI's 20-year history of fraud and deception.

In the US the leadership on BCCI came from Mr Morgenthau, partly because the Bush administration's Department of Justice had been noticeably lethargic on the case.

The 86-year-old Mr Clifford has been able to avoid trial thus far on the grounds that he is too ill to come to court. Charges against him have been deferred, and few in Washington expect him ever to go to trial. Separate charges against both Mr Clifford and Mr Altman were lodged in Washington, but these too might be dropped as a result of the New York acquittal.

A number of the key BCCI figures who have been indicted in the US, including Mr Sweleh Naqvi, the former BCCI chief executive, are meanwhile in Abu Dhabi or other places beyond the reach of the US.

It is thus unclear, aside from appealing against the Altman conviction, how Mr Morgenthau's office will proceed from here. There is a real risk that those BCCI officials involved in the more shocking acts of corruption will ultimately escape trial anywhere.

In broader terms, the Altman acquittal highlights the difficulty of policing the international financial markets when no single regulator is in charge of monitoring specific institutions.

After the BCCI trial's collapse in New York, the next important international banking scandal to find its way to US courts will be the trial next month of Mr Christopher Drogoul, the former manager of the Atlanta branch of Italy's Banca Nazionale del Lavoro (BNL). The BNL case is very different, however.

Mr Drogoul is accused of defrauding the US government and BNL's Rome head office by making more than $5bn (£3.3bn) of improper loans to Iraq.

The difference, however, is that Mr Drogoul, joined by investigators in the US Congress and the Italian parliament, has claimed the Atlanta loans were secretly countenanced by the US and Italian governments as part of the tilt towards Mr Saddam Hussein.

Associated Press

Robert Morgenthau: took the leadership in the US on BCCI

Brazil names third bank governor in year

By Christina Lamb in Rio de Janeiro

BRAZIL's chief debt negotiator has been named the country's new central bank governor in yet another shuffle of key economic personnel after a public clash between President Itamar Franco and the former governor.

Mr Pedro Malan returns from Washington to replace Mr Paulo César Ximenes, whose turbulent five months as governor came to an end on Friday night. Mr Ximenes resigned along with the whole of the bank's board after a dispute with the president over the validity of predated cheques written before the country's recent change of currency. But the two had repeatedly come to blows over Mr Franco's low interest rate policy.

Although the business community was irritated by yet another change in the economic team – there have been three central bank governors and five finance ministers in the past year – the choice of Mr Malan was generally welcomed, as was the accompanying announcement by Mr Fernando Henrique Cardoso, the finance minister, that interest rates are to drop.

Mr Malan is considered to have done a masterful job at negotiating a Brady deal for restructuring Brazil's $44bn (£29.5bn) commercial debt amid the country's economic crisis. The deal is due to be completed on November 30 though the timing could be jeopardised by the country's continuing failure to reach a new accord with the International Monetary Fund.

Mr Malan has excellent relations with the international financial community, having lived for 10 years in Washington, where he has worked for the World Bank and Inter-American Development Bank before becoming debt negotiator.

Aged 50, Mr Malan also appears to have unusually long staying power by Brazilian standards. He has held his position as debt negotiator for three years despite numerous changes at the helm of the Finance Ministry.

Assuming the mantle of Central Bank governor is an unenviable task, with inflation for this year nearing a record 2,000 per cent. Mr Malan has already turned down the job on two previous occasions. But he was persuaded by Mr Cardoso, with whom he enjoys close working relations.

Beijing puts new clamps on media

By Tony Walker in Beijing

CHINA has announced additional restrictions on news dissemination in a clear sign that as part of the current austerity drive the authorities are also intent on reining in the local media.

The State Council, or cabinet, warned in the new regulations, issued at the weekend, against the holding of unauthorised news conferences, and urged the press to concentrate on "positive news".

The State Council circular stated that news conferences should focus on "important issues" such as promoting "economic and spiritual civilisation".

The crackdown on the spread of information coincides with attempts by the central government to regain control of the economy under a new stabilisation plan introduced last month.

It also comes amid signs of a sterner attitude towards art and literature generally with the banning late last month of the award-winning film, Farewell To My Concubine. The authorities have given no reason for the ban, but members of the leadership are believed to have been incensed by the film's negative portrayal of the Communist party.

The State Council circular also warned against the leaking of "party and state secrets", using language reminiscent of an earlier, less liberal era.

The new regulations follow measures introduced this month to penalise severely journalists who accepted bribes or other financial inducements – what was described at the time as "newswriting for illicit payment".

The authorities were reacting to the fairly widespread practice of Chinese journalists accepting money to write flattering articles about companies and their products.

Tighter restrictions on the media coincide with attempts by Beijing to combat corruption, fight tax evasion, and counter rampant smuggling across China's borders.

● The Bank of China, the country's central bank, will issue its first Hong Kong dollars next May, one of its vice chairman was quoted as saying yesterday, **Reuter reports from Beijing.**

The initial volume was expected to be in the region of HK$3bn to HK$6bn (£258m to £517m), Mr Huang Diyan told the Xinhua news agency.

Until now, the British colony's dollars have been issued only by the Hong Kong and Shanghai Bank Corp (HKSBC) and the Standard Chartered Bank. A British colony since 1842, Hong Kong becomes a Chinese special administrative region on July 1 1997.

Mr Huang said all the necessary legal procedures for the issue were completed, leaving only technicalities to sort out.

"We sincerely hope that the Hong Kong Bank, Standard Chartered and other international banks will stay and develop in Hong Kong on a long-term basis, so as to jointly work toward the prosperity of Hong Kong's financial market and consolidate and further promote its status as an international financial centre," he said.

South Korea shares continue to fall

THE South Korean stock market fell for a second day on Saturday in response to an immediate ban on anonymous financial transactions, but there were *indications that investor panic at the* measure could subside this week, writes John Burton in Seoul.

The general share index fell to 666 on Saturday, an 8 per cent drop since Thursday, when the anti-corruption action was announced.

The fall on the market was caused by investors liquidating their false-name accounts to move their funds elsewhere and avoid paying taxes.

But analysts noted that trading volume at 21.2m shares was up sharply from Friday's 1.3m shares, indicating that institutional investors were entering the market to take advantage of buying opportunities.

Investors are liquidating their false-name accounts

Meanwhile, gold prices and the black market dollar rate stabilised. It had been expected that holders of false-name accounts would rush to acquire gold and illegal dollars in an attempt to hide money from the tax authorities.

The property market was calm after *officials said they would need to* approve all transactions for the next three months to prevent the flow of hidden money into that sector.

Cash withdrawals from banks were reported to be at normal levels, with few customers shifting false-name accounts to ones held under their real names as required under the new rules.

Sales of safes fell sharply, however, as the government announced that it would track buyers who could possibly use them to conceal their assets.

Most lenders on the unofficial kerb market, which is largely financed by the money held in the false-name *accounts, remained closed.*

Small and medium-sized businesses depend heavily on the kerb market for financing, but the virtual closure of the kerb market has not so far affected their operations.

The central bank reported that few businesses were requesting the emergency loans which had been offered by government to prevent possible bankruptcies resulting from the introduction of the real-name system.

Reuter

A defendant (left) raises the Koran in defiance from behind prison bars during the first session of a Cairo military trial yesterday.

Fifty-three Moslem militants are accused of belonging to an illegal organisation plotting to overthrow the Egyptian government, Reuter reports.

Earlier a Cairo civilian court at the weekend acquitted 24 alleged Moslem militants who were accused of murdering parliamentary speaker Mr Riffat Mahgoub, who was gunned down together with five of his bodyguards in October 1990, adds Shahira Idris.

The State Security Court cleared 14 of the defendents on all charges and jailed the remaining 10 for terms ranging from three to 15 years for possession of arms, forging documents and other related charges.

The verdict was in sharp contrast to the 15 death sentences passed by military courts on Moslem fundamentalists in the past two months.

After a spate of terrorist attacks by Moslem extremists, resulting in the death of over 170 people in the last 18 months, the Egyptian government has resorted to military courts in cases involving Moslem militants to ensure harsh and swift sentences.

Babangida set to compromise on government

By Paul Adams in Lagos

PRESIDENT Ibrahim Babangida is expected to end uncertainty over the make-up of the proposed interim government when he addresses Nigeria's national assembly in the capital Abuja tonight.

Government officials have speculated that the new administration will contain about six military commanders but will be led by a civilian, with the possibility that President Babangida could retire from the army and remain in office.

It has also been suggested that the new government will be subject to a higher military council and will lack power, as was the case with the outgoing transitional council appointed in January.

Nigeria's three-day strike, which ended on Saturday, showed that pro-democracy groups can defy the military regime by peaceful protest in Lagos and the south-west, but cannot rally support in the rest of the country.

The Campaign for Democracy (CD), the loose association of civil liberties groups which is behind the civil protest, claim the arrest without trial of three of their leaders, including chairman Dr Beko Ransome-Kuti, closure of some of the independent press and the passing of some repressive decrees have left Nigerians more politicised in the past two months than in 10 years of military rule.

The CD's unconditional rejection of the interim government commands support in the south-west, the Yoruba homeland of Chief Moshood Abiola, victorious candidate in the annulled June poll.

The Nigeria Labour Congress (NLC), while committed to civilian handover on August 27, has not upheld Mr Abiola's claim to be the next head of state but only the oil workers' union has said it is ready to strike before August 27. An oil strike could cut the government's only big source of foreign exchange.

NEWS IN BRIEF

Deportees in phased return

Almost 400 deported Palestinians, who have spent eight months stranded in no-man's-land between Israel and south Lebanon, yesterday accepted an Israeli offer of a phased return, writes David Horovitz from Jerusalem.

About half will return next month, with the rest returning at the end of the year. The deportees, mostly linked to the fundamentalist Hamas and Islamic Jihad movements in the occupied West Bank and Gaza Strip, were expelled last December after six Israeli soldiers had been killed in the occupied territories.

Until yesterday, the deportees had insisted Israel take back all or none of them. But after debating the latest Israeli offer, spokesman Abdul-Aziz Rantisi yesterday said they had changed their position because over 100 of them needed medical care; because their families wanted them home; because the UN had failed to press for the implementation of a December 18, 1992, resolution calling on Israel to repatriate them all immediately; and because the Arab world had ignored their pleas to boycott the Middle East peace process until they were allowed home.

Charges over Hussein plot

Ten Moslem fundamentalists in Jordan are to be charged with plotting to assassinate King Hussein at a university ceremony last June, writes James Whittington in Amman.

In April, 31 students and staff from Mu'ta University were arrested. All of them were suspected members of the banned Islamic Liberation party, which seeks to establish an Islamic state in Jordan. *Twenty-three have been* released, but security sources confirm that the remaining eight, along with two other suspects still at large, will be formally charged with treason, an offence *punishable by* death.

In a separate development, Jordan on Saturday hanged two men convicted of spying for Israel, according to local newspapers.

Gunmen kill 16 in India

Gunmen killed 16 bus passengers on the Jammu-Kishtwar road in northern India at the weekend, writes Shiraz Sidhva from Srinagar. Witnesses said the gunmen asked Moslems to get off the bus before spraying bullets into the 16 remaining Hindu passengers, killing 14 immediately.

Shortest of honeymoons for Hosokawa

Gordon Cramb on the Japanese prime minister's need to serve many political aces

MR MORIHIRO Hosokawa is on holiday. *A week can be a long* time in politics, and the reformist patrician sworn in last Monday as Japan's prime minister has given himself a summer break at the end of it. Spending a few days north-west of Tokyo playing tennis and reading, he can bask in approval ratings put by opinion polls at around 75 per cent.

But the evidence of the week is that holding together the seven parties in his coalition will be nothing other than hard work.

The seven have failed to agree on the core issue of which electoral system should replace the current multi-seat constituencies. These are blamed for engendering corruption as candidates spend money competing with others with whom they have no party or ideological differences.

The system being mooted mixes deputies elected by single-seat voting districts, and by a nationwide party tally under proportional representation. Seven party mathematicians have worked out the most favourable outcome for each, and no mechanism has yet been found which will avoid electoral hara-kiri for at least one of the partners.

A decision has been put off until after Mr Hosokawa, founder of the year-old Japan New party who has staked his future on delivering political reform by the end of the year, gives a policy speech to the Diet a week today.

In the meantime, other issues have been highlighting the fragility of the alliance grouping Socialists, Buddhists and those who defected from the Liberal Democratic party towards the end of its 38-year conservative rule.

Mr Hosokawa put down his racquet yesterday to join Emperor Akihito at the government's annual ceremony marking the surrender of Japanese imperial forces at the end of the second world war. The premier offered his condolences to Asian victims of the country's aggression, the first holder of his office to do so in so formal a manner.

Leaders of the left-wing Social Democratic party, largest member of the coalition, showed up for the first time.

But down the road, four of his cabinet paid their respects at the Yasukuni shrine to the memory of Japan's own war dead, including those deemed war criminals.

They were all from the Japan Renewal party formed by more recent – and, some believe, relatively unreconstructed – LDP departees.

An admission by the LDP, on its final day in office, that the army dragooned so-called comfort women into providing sexual services in occupied countries has sparked debate about how much more Japan needs to atone for past wrongs. One report yesterday said Mr Hosokawa was contemplating setting aside as much as Y1,000bn (£6.7bn) as a war legacy for its Asian neighbours.

Such a sum would be likely to cause palpitations among Finance Ministry bureaucrats trying to restrain government spending as the country's economic slowdown knocks tax revenues.

Ministers will have to preside in the next few weeks over arguments about whether cuts in income tax and compensatory increases in VAT will better stimulate demand – an idea to which the SDP is deeply hostile – as well as whether to pass on to consumers the benefits of the stronger yen on energy prices.

Income for the country's political parties themselves is under review. The government wants to abolish corporate donations, and apparently won a convert yesterday in Mr Gaishi Hiraiwa, head of the Keidanren, Japan's largest business grouping. He is proposing an end to contributions, put at Y13bn a year which went largely to the LDP.

The Social Democrats are *expected to protest* if the debate extends to the trade union contributions with which it is largely funded. The SDP is anyway engaged in an awkward period of introspection following an announcement on Thursday by Mr Sadao Yamahana, its chairman, that he would submit to a leadership contest.

Mr Yamahana, a moderate, is also minister in charge of political reform in the new government.

If he is ousted by a challenger from the SDP left, which is less than comfortable with its coalition partners, Mr Hosokawa's arithmetic could be altered dramatically.

The prime minister is on vacation until Thursday, but his political honeymoon may already be over.

Ignore the gripe, don't believe the hype

TO JUDGE BY the rhetoric of economic commentary, *almost every mbig ajor* economy is in dire straits. The US recovery is heading from anaemic to "seriously in doubt" *in the pundit's lexicon. Recession*ary Japan is meanwhile on the verge of a "double dip". The effects of Germany's *deepening recession are spreading across* the continent. Only the British economy, despite setbacks to its nascent recovery, *has "defied the sceptics" over the past six* months. But the conventional economic wisdom is more than usually misleading.

The US economy has been diffident about recovering because, at least by past US standards, it had a short dose of reces*sion to recover from. Federal reserve* chairman Alan Greenspan's move to cut interest rates in 1990 spared the US a *lengthy period of negative growth.* Output fell by just 2.2 per cent between the second quarter of 1990 and the first quarter of 1991. It *has since more than recovered this* lost ground, as the chart shows. But American consumers had only a year to correct their debt-laden balance sheets before they were expected to begin the cycle all over again. *After this brief period of retrench*ment, the fact that personal sector debts remain equivalent to 100 per cent of dis*posable income, compared with 75 per cent* in 1980, makes for a restrained upturn.

The UK recovery, while also held back *by personal sector debts, may prove faster* than America's. But once again, the chart puts matters in perspective. The UK is *currently recovering from two years of* falling output and high nominal interest rates. UK output fell by 4 per cent between *the second quarter of 1990 and the second* quarter of 1992 and has not yet returned to its level at the beginning of 1989.

Japan's record does not look too bad when judged against this rather dismal Anglo-Saxon performance. Despite last week's worries about a "double dip". Japan has barely had a single dip worth noting. Japanese output fell by a mere 0.6 per cent between the second and third quarters of 1992. It has risen by 14 per cent since the end of 1988.

Only Germany's recent performance fits the rhetoric. Since the first quarter of last *year, west German output has fallen* by 2.8 per cent. Even so, this fall followed a dramatic period of post-unification growth. *Between the fall of the Berlin Wall in late* 1989 and the onset of recession, output rose by 9.9 per cent. And France and Italy, *while facing a difficult year, have not* experienced anything like the falls in output that debt-burdened America and Britain have suffered.

So why this need to describe every economy with the same doom-laden language? *Headline writers are partly to blame. But* politics also plays a role.

In Britain, government politicians have been relieved at *the pace of recovery, even* though economists remain sceptical about its staying power. Across the Atlantic, *things are less comfortable. President Bill* Clinton, like Mr Bush before him, faces a politically potent gap between economic *performance and expectation. To fill it, the* new resident at the White House has turned abroad – to Germany and Japan – to provide the boost to demand which US public opinion demands.

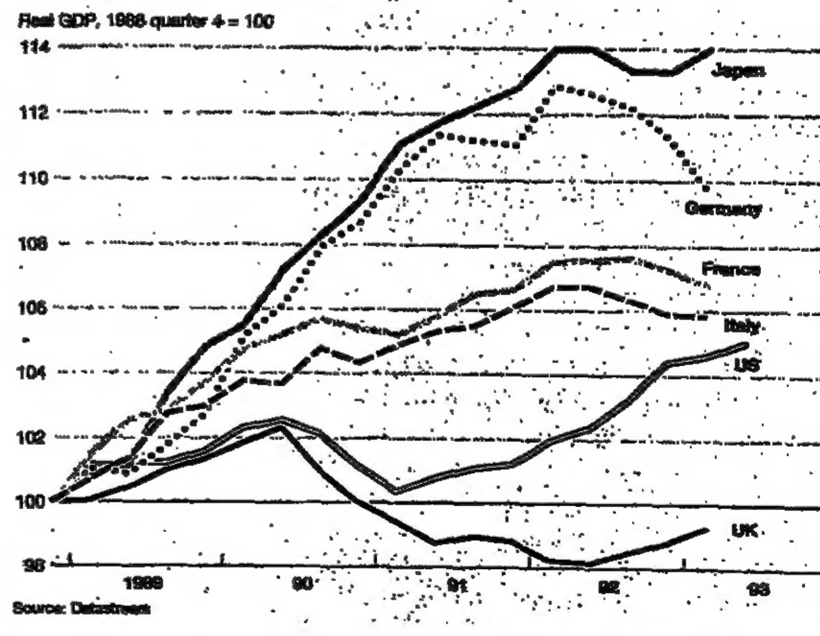
Mr Clinton's *quest for growth* has had some success. The Bundesbank is still holding out against US and European *demands for further German interest rate* cuts. But Japan's current account surplus has proved an easier target. Though foreign trade accounts for only around 11 per cent of American GDP, US Treasury officials have successfully exhorted the Japa*nese government to boost their domestic* economy through higher public spending and further cuts in interest rates.

The Clinton administration has a point: the Japanese economy is losing momentum, less government saving and more demand *for imports is the best way to cut* the trade surplus, and boosting Japanese domestic demand might help the US recovery along. *But the chart makes attempts to* fault Japan's recent contribution to world growth seem a little short-termist.

Stephanie Flanders and Edward Balls

G6 output: six roads diverge ...

Real GDP, 1988 quarter 4 = 100



Source: Datastream

INTERNATIONAL ECONOMIC INDICATORS: NATIONAL ACCOUNTS

Figures for GDP/GNP are in billions of European currency units (Ecu). The first breakdown is in current prices and the second shows growth rates in the constant price series.

UNITED STATES

CURRENT PRICES	Gross Domestic Product	Private Cons. (as a % of GDP)	Private Invest. (as a % of GDP)	Govt. Spend. (as a % of GDP)	Net Exports (as a % of GDP)
1985	5,298.1	66.0	17.7	19.1	−2.9
1986	4,339.9	66.8	16.8	19.5	−3.1
1987	3,933.7	67.2	16.5	19.4	−3.2
1988	4,141.1	67.3	16.2	18.7	−2.2
1989	4,768.1	67.1	15.8	18.6	−1.5
1990	4,332.8	67.9	14.5	18.9	−1.2
1991	4,581.9	68.5	12.7	19.2	−0.4
1992	4,592.6	68.8	12.8	18.7	−0.5
2nd qtr.1992	4,641.1	68.7	13.1	18.8	−0.6
3rd qtr.1992	4,332.6	68.7	13.1	18.8	−0.6
4th qtr.1992	4,804.8	69.0	13.2	18.5	−0.7
1st qtr.1993	5,155.9	68.9	13.7	18.2	−0.8
2nd qtr.1993	5,142.7	69.3	13.4	18.1	−0.8

JAPAN

CURRENT PRICES	Gross National Product	Private Cons. (as a % of GNP)	Total Invest. (as a % of GNP)	Govt. Cons. (as a % of GNP)	Net Exports (as a % of GNP)
1985	1,780.2	58.7	28.0	9.5	3.7
1986	2,033.3	58.4	27.7	9.6	4.3
1987	2,102.2	58.4	28.4	9.4	3.8
1988	2,466.0	57.5	30.4	9.1	2.9
1989	2,625.2	57.3	31.5	9.1	2.1
1990	2,322.0	57.0	32.5	9.0	1.4
1991	2,726.2	56.2	32.2	9.1	2.5
1992	2,859.0	56.5	30.9	9.3	3.3
2nd qtr.1992	2,850.2	56.1	31.3	9.3	3.3
3rd qtr.1992	2,712.3	56.9	30.6	9.3	3.2
4th qtr.1992	3,022.9	56.4	30.2	9.6	3.7
1st qtr.1993	3,267.2	56.9	30.0	9.5	3.8
2nd qtr.1993					

GERMANY

CURRENT PRICES	Gross National Product	Private Cons. (as a % of GNP)	Total Invest. (as a % of GNP)	Govt. Cons. (as a % of GNP)	Net Exports (as a % of GNP)
1985	625.4	56.5	19.5	19.9	4.2
1986	911.1	55.1	19.5	19.7	5.8
1987	987.5	55.3	19.2	19.8	5.6
1988	1,015.6	54.7	20.0	19.6	5.8
1989	1,087.1	54.4	20.8	18.6	6.4
1990	1,189.2	54.1	21.0	18.2	6.7
1991	1,287.1	53.9	21.2	17.8	7.1
1992	1,372.1	53.8	21.2	18.0	6.9
2nd qtr.1992	1,355.6	53.3	21.9	17.8	7.0
3rd qtr.1992	1,373.2	53.6	20.6	18.3	7.5
4th qtr.1992	1,418.7	54.7	20.6	18.2	6.5
1st qtr.1993	1,409.3	55.5	99.9	18.1	6.5
2nd qtr.1993					

FRANCE

CURRENT PRICES	Gross Domestic Product	Private Cons. (as a % of GDP)	Total Invest. (as a % of GDP)	Govt. Cons. (as a % of GDP)	Net Exports (as a % of GDP)
1985	691.8	60.8	18.9	19.6	0.7
1986	746.1	60.2	19.6	19.2	1.0
1987	770.5	60.6	20.2	19.1	0.1
1988	815.2	59.8	21.4	18.7	0.1
1989	877.8	59.4	22.3	18.2	0.1
1990	940.1	59.5	22.3	18.2	0.0
1991	988.8	59.9	21.2	18.5	0.3
1992	1,022.9	60.4	19.6	18.9	1.3
2nd qtr.1992	1,010.8	59.8	19.8	18.8	7.8
3rd qtr.1992	1,024.5	60.3	19.5	18.9	1.3
4th qtr.1992	1,057.3	60.8	18.9	19.2	1.2
1st qtr.1993					
2nd qtr.1993					

ITALY

CURRENT PRICES	Gross Domestic Product	Private Cons. (as a % of GDP)	Total Invest. (as a % of GDP)	Govt. Cons. (as a % of GDP)	Net Exports (as a % of GDP)
1985	561.8	62.8	22.5	16.7	−1.9
1986	615.7	62.2	20.9	16.5	0.4
1987	658.4	62.4	21.0	16.9	−0.3
1988	710.5	61.9	21.5	17.1	−0.5
1989	790.8	62.4	21.3	16.9	−0.6
1990	861.1	61.8	21.0	17.7	−0.4
1991	931.6	62.1	20.5	17.8	−0.3
1992	947.0	63.1	19.4	17.7	−0.2
2nd qtr.1992	972.8	63.1	19.8	17.7	−0.8
3rd qtr.1992	984.4	63.6	18.7	17.8	−0.1
4th qtr.1992	985.8	63.2	18.8	17.8	0.2
1st qtr.1993	833.6	63.1	16.7	17.7	2.5
2nd qtr.1993					

UNITED KINGDOM

CURRENT PRICES	Gross Domestic Product	Private Cons. (as a % of GDP)	Total Invest. (as a % of GDP)	Govt. Cons. (as a % of GDP)	Net Exports (as a % of GDP)
1985	606.5	61.3	17.1	20.7	0.9
1986	573.7	63.1	16.9	20.6	−0.7
1987	600.9	63.2	17.8	20.2	−1.1
1988	709.5	64.1	20.1	19.5	−3.6
1989	768.0	64.1	20.6	19.2	−4.0
1990	770.2	63.6	19.0	20.0	−2.8
1991	818.9	64.1	15.8	21.2	−1.0
1992	808.5	64.9	15.1	21.8	−1.7
2nd qtr.1992	845.8	64.8	14.9	22.0	−1.3
3rd qtr.1992	825.5	64.8	15.3	21.7	−1.6
4th qtr.1992	746.3	65.9	14.7	22.0	−2.5
1st qtr.1993	754.8	66.2	14.4	21.7	−2.2
2nd qtr.1993					

CONSTANT PRICES — % growth in

UNITED STATES	GDP	Cons.	Invest.	Govt.	Exports
1985	3.2	4.4	−1.5	8.1	1.2
1986	2.9	3.6	−1.5	5.2	6.6
1987	3.1	2.8	1.9	3.0	10.5
1988	3.9	3.6	3.2	0.6	15.8
1989	2.5	1.9	1.4	2.0	11.9
1990	0.8	1.2	−5.7	2.8	8.1
1991	−1.2	−0.6	−10.6	1.2	5.8
1992	2.1	2.3	7.8	−0.3	6.3
2nd qtr.1992	1.6	1.5	9.9	−1.2	5.1
3rd qtr.1992	2.1	2.1	7.9	0.3	5.8
4th qtr.1992	3.1	3.4	9.8	0.4	4.8
1st qtr.1993	2.6	2.3	17.2	−1.9	3.3
2nd qtr.1993	2.6	3.3	8.1	−1.5	4.8

JAPAN	GNP	Cons.	Invest.	Govt.	Exports
1985	5.1	3.3	8.5	1.7	6.5
1986	2.7	3.4	4.3	4.5	−5.3
1987	4.3	4.2	8.2	0.4	4.6
1988	6.3	5.2	14.2	2.2	10.7
1989	4.8	4.3	9.6	2.0	15.0
1990	4.8	4.0	7.9	1.9	10.6
1991	4.1	2.2	3.8	1.7	4.8
1992	1.5	1.8	−1.7	2.4	2.4
2nd qtr.1992	2.0	1.6	−0.3	2.4	3.3
3rd qtr.1992	0.9	1.5	−3.4	3.8	1.3
4th qtr.1992	0.5	0.3	−3.0	2.9	1.7
1st qtr.1993	0.0	0.5	−4.1	2.5	2.7
2nd qtr.1993					

GERMANY	GNP	Cons.	Invest.	Govt.	Exports
1985	2.0	1.6	−1.0	2.1	7.6
1986	2.2	3.4	4.0	2.6	−0.1
1987	1.4	3.3	1.3	1.5	0.5
1988	3.5	2.4	7.8	2.2	5.6
1989	4.0	3.0	6.6	−1.6	11.9
1990	5.0	5.3	7.0	2.3	11.7
1991	3.6	3.6	4.3	0.5	12.6
1992	0.5	0.8	1.2	2.5	2.3
2nd qtr.1992	1.0	−0.5	0.3	3.2	4.6
3rd qtr.1992	0.0	1.5	−3.2	1.2	2.2
4th qtr.1992	−0.2	1.9	1.1	1.7	−0.6
1st qtr.1993	−3.4	−0.3	−11.5	−1.4	−3.0
2nd qtr.1993					

FRANCE	GDP	Cons.	Invest.	Govt.	Exports
1985	1.9	2.4	2.8	2.3	1.9
1986	2.5	3.9	8.8	1.7	−1.4
1987	2.3	2.9	5.1	2.8	3.1
1988	4.5	3.3	9.8	3.4	8.1
1989	4.3	3.1	8.8	0.5	10.2
1990	2.5	2.9	3.2	2.0	5.3
1991	0.7	1.4	−3.1	2.5	3.9
1992	1.4	1.7	−4.8	2.7	5.8
2nd qtr.1992	1.7	1.1	−2.7	2.8	7.9
3rd qtr.1992	1.1	1.8	−6.5	2.7	5.8
4th qtr.1992	0.6	1.8	−6.5	2.4	3.9
1st qtr.1993	−0.7	0.5		1.8	−8.0
2nd qtr.1993					

ITALY	GDP	Cons.	Invest.	Govt.	Exports
1985	2.6	3.0	1.7	3.4	3.2
1986	2.9	3.7	1.4	2.6	2.5
1987	3.1	4.2	4.6	3.4	4.7
1988	4.1	4.2	6.3	2.8	5.4
1989	2.9	3.5	2.3	0.8	8.8
1990	2.1	2.5	3.7	1.2	7.0
1991	1.3	2.3	1.1	1.5	0.3
1992	0.9	1.8	−1.3	1.1	5.0
2nd qtr.1992	1.3	2.5	1.3	0.9	2.9
3rd qtr.1992	0.8	1.8	−4.1	1.2	7.8
4th qtr.1992	−0.2	0.4	−8.8	1.0	5.6
1st qtr.1993	−0.9	−0.8	−24.8	0.9	8.9
2nd qtr.1993					

UNITED KINGDOM	GDP	Cons.	Invest.	Govt.	Exports
1985	3.9	3.8	3.5	0.0	5.9
1986	4.1	6.4	2.2	1.8	4.7
1987	4.8	5.5	10.2	1.2	5.6
1988	4.4	7.4	18.1	0.6	−0.1
1989	2.1	3.3	5.2	0.9	3.8
1990	0.6	0.7	−7.4	3.2	4.9
1991	−2.3	−2.0	−13.0	3.2	0.1
1992	−0.6	0.0	2.5	0.0	2.7
2nd qtr.1992	−0.6	0.1	4.6	0.6	2.8
3rd qtr.1992	−0.6	0.6	5.5	−1.8	0.9
4th qtr.1992	0.0	1.3	−0.7	−1.0	3.0
1st qtr.1993	1.1	2.3	−3.1	−2.6	6.0
2nd qtr.1993					

Seasonally adjusted data used in all cases. Statistics for Germany apply only to western Germany. GDP/GNP is broken down into private consumption expenditure, investment (the sum of gross fixed capital formation and the change in stocks), general government final consumption, and net exports (exports of goods and services minus imports of goods and services). The US includes investment by government in the government series rather than under investment. Quarterly GDP/GNP totals are annualised. The growth rates are the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. The figures in the fifth column of each set of growth rates refer only to exports, rather than to net exports. Data supplied by Datastream and WEFA from national government sources.

British Gas expected to escape break-up

By David Lascelles, Resources Editor

BRITISH Gas, the privatised utility company, is widely expected to be spared from break-up in the recommendations of the Monopolies and Mergers Commission report due to be released tomorrow.

The report is likely, however, to call for a more transparent structure to the giant gas company, as well as the phased removal of its monopoly of the tariff market for domestic households and small businesses.

A second report will also recommend a rate of return for British Gas's pipeline and storage business, setting the stage for greater competition by new entrants into the gas market.

The contents of the two long-awaited reports, which run to 2,000 pages, have remained closely guarded since they were delivered by the MMC to the Department of Trade and Industry and Ofgas, the industry regulator, two weeks ago.

Even British Gas has only seen part of the reports, though it will receive both today, ahead of tomorrow's publication.

Unusually, the Monopolies and Mergers Commission (MMC) is expected to make a statement about the reports tomorrow. This is because of the complications caused by the four separate monopoly references which triggered the reports, and the fact that they are being released before the government has had the opportunity to decide what action to take.

The Department of Trade And industry (DTI) will be issuing the reports without comment. Ministers intend to study them for some weeks before deciding whether to accept their recommendations.

Ofgas will have to decide whether to implement the rate of return recommendations, though it has already agreed to co-ordinate any action with the DTI. This will mean further uncertainty for British Gas which has been vigorously resisting a possible break-up.

The expectation that the MMC's recommendations will be less severe on British Gas than originally expected helped drive the company's share price up 25p to 333p last week, a record high, in heavy trading.

Mr Michael Sayers, gas industry analyst at Salomon Brothers, said: "I am not expecting the MMC to recommend a full scale break up of British Gas. But I do think there will be a move towards complete accounting separation of the transport and storage business."

British Gas's competitors are also hoping that the MMC will recommend lowering the threshold for entry into the tariff market. At the moment, British Gas has a monopoly of all customers who use less than 2,500 therms a year, the majority of gas consumers.

Mr Norman Ellis, the managing director of Kinetica, a leading independent gas company, said: "A mild report would be inconsistent with the government's position on competition."

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Power costs likely to be reduced

By Michael Smith

BRITAIN'S largest companies should see reductions in record high electricity costs this autumn after a decision by the power industry to change the way prices are calculated.

The changes are likely to lead to falls of at least 1.5 to 3 per cent in prices of the electricity wholesale "pool", where power in England and Wales is traded, and could save some companies several million of pounds annually.

The moves follow a 20 per cent rise in pool prices since April.

They will be welcomed by the government and Prof Stephen Littlechild, the electricity regulator, who have been under intense pressure from large companies to act on prices or persuade electricity companies to do so.

Mrs Margaret Thompson, pool chief executive, said the changes were the first to emerge from a long term review. But the changes are unlikely to satisfy intensive energy users who have suffered significant price rises since electricity privatisation.

Most electricity consumers, including householders, will be affected by the pool changes only at the margins. Although their power is traded through the pool, they have been shielded from prices changes by "hedging" contracts between electricity companies.

Bad weather boosts overseas holiday sales

MR RICHARD Carrick, marketing director of Airtours, the package holiday group, has been delighted with the British weather this summer, writes Michael Skapinker. "We've had 32 consecutive days of rain in Manchester. That's marvellous for bookings," he said.

A combination of poor weather, rising consumer confidence and weak Mediterranean currencies has produced a good high season for companies selling overseas holidays. This week sees the start of an industry campaign to ensure next summer is as successful.

Ms Rosemary Astles, marketing director of Thomson, the market leader, said Spain had increased its share of the UK market from 33 per cent last summer to 37 per cent this year, aided by a weak peseta.

Tomorrow Thomson launches its summer 1994 programme. The launch of the brochure has traditionally been seen as the opening move in a price war. Thomson is confident, however, that the industry has entered a more settled period. Fierce price-cutting has not occurred this summer.

Thomas Cook, the travel agents' owned by Westdeutsche Landesbank and the German travel group LTU, said the poor UK weather has kept demand for overseas holidays high right up to the end of September and ensured companies can maintain prices.

Bright spots lift gloom in tourism

Michael Skapinker sees signs of a recovery in a recession-hit sector

BRITAIN'S tourist industry has reached a milestone in its recovery from recession, according to Mr Martin Cummings, owner of The Inn on the Lake.

The number of lunchtime diners in Mr Cummings' restaurant in Godalming, one of southern England's wealthier towns, is now regularly in double figures. Occupancy in the 20-room inn is up 5.2 per cent on last summer.

Like their colleagues in the manufacturing sector, managers of UK tourist establishments are reporting an upturn, albeit a patchy one.

Some say they would not be surviving without US visitors; others that the Americans do not seem to have arrived this year.

The English Tourist Board says there are contrasting stories of success and gloom from different hotels in the same street.

Mr Brian Hughes, managing director of the St Andrews Golf Hotel in St Andrews, eastern Scotland, says the recession in southern England has led to a sharp fall in guests who live in London and the Home Counties. But business from the US and continental Europe has been excellent.

At the other end of the country, Mr Cummings has had the opposite experience. Another of his properties, the Amberley Castle country hotel, in West Sussex, has enjoyed a 37 per cent increase in occupancy over the past three months, compared with the same time in 1992. Last week, occupancy was 95 per cent. Eighty per cent of the guests have been British. US business is slower than in the past.

Most tourism managers agree business is better this summer than last, although they have different views on how much better.

Mrs Jane Randall, tourism services officer for Stoke-on-Trent in central England, says inquiries at the local tourism information centre are running at 1,000 a day, compared with 500-600 last summer. But Mr Patrick Roper, development director of the National Maritime Museum in Greenwich, south London, says the number of visitors this summer appears only slightly higher than last year.

The different experiences of UK tourist businesses partly reflect the uneven upturn. They also reflect the fragmented nature of the tourist industry; most companies are small and attract different types of visitors.

Some operate in markets protected from the effects of recession because their clients are so well off. Mr Hughes in St Andrews says US and continental European golfers tend to be wealthier than their UK counterparts.

"The British golfer tends to golf cheaply. On the continent you have to be well off because it's all private courses. In the US it also costs more to play golf than here."

Overseas golfers come to Scotland in good times and bad. "Two points up or down in the exchange rates doesn't affect them."

Hotels like his also thrive by exploiting a narrow niche. "There is an international boom in golf, in France, Germany and the Low Countries," he says.

"We're probably getting the same percentage of a bigger market. We're in the Italian phase now. The Italians always come to Scotland in August. The French come in July."

Mr Roper in Greenwich does not know what to make of this year's business. Visitor numbers were high around Easter, following the reopening of the restored Old Royal Observatory.

June was a poor month, followed by an improvement in July. There seem to be a large number of North Americans, but fewer French. Why June was bad or where the French have gone are questions Mr Roper cannot answer. He is a tourist industry veteran, he says, but cannot remember a time when business trends were more difficult to read.

Lloyd's seeks approval for investor plan

By Richard Lapper

LLOYD'S OF LONDON is to ask Names to approve plans to introduce new corporate investors to the insurance market at a an extraordinary general meeting (EGM), it announced yesterday.

The meeting, which will be held on 20 October, is designed to head off possible future EGM calls by dissident loss-making Names which could lead to delays in the entry of new "incorporated Names".

Mr David Rowland, chairman, said in a letter to Names – the individuals whose assets support the market – that Lloyd's wanted to "clear the way for new capital with certainty before the end of October."

Separately the Lloyd's council – the market's governing body – will next month consider a rulebook, outlining the terms on which corporate capital can participate in the market.

Lloyd's plans to attract corporate investors, announced in April, have excited considerable controversy at the market.

Several investment schemes to bring corporate capital have been developed by UK and US banks but cannot go ahead until rules are approved.

Among the most advanced of these is Corporate Lloyd's Membership (CLM), an investment trust, Samuel Montagu (with James Capel), Salamon Brothers, SG Warburg, JP Morgan and Goldman Sachs.

Britain in brief

Companies aided by low wage costs

Competitiveness of British industry will continue to improve because of the impact of high unemployment on wage costs and labour flexibility, a survey says today.

The survey shows that finance directors of the UK's biggest public companies are overwhelmingly confident that industry will continue to narrow the productivity gap with the world's most efficient economies and that the benefits of last year's devaluation can be sustained.

Respondents cited high unemployment and wider public awareness of the need to retain competitiveness as explanations for the confidence among finance directors. More than two-thirds of the 1,000 finance directors surveyed said the competitive gains of devaluation would not be wittled away.

Pay deals still falling

There is no evidence of a bottoming out in the level of pay settlements or of a "catch-up" in those companies which imposed pay freezes in 1991-92, according to the latest pay data from the Confederation of British Industry.

The CBI says that manufacturing pay awards averaged 2.3 per cent in the second quarter of 1993 compared with 2.5 per cent in the first quarter and 4 per cent in the same quarter last year. Service company pay awards provisionally averaged 2.9 per cent in the second quarter.

Manufacturers settling during the second quarter report productivity gains averaging 3.8 per cent. Although the fall in unit labour costs for the second quarter is expected to be 2.6 per cent, down from a fall of 3 per cent in the first quarter, the overall drop is better than Germany, France, Japan and the US.

Little growth in new business

The economic recovery has not yet stimulated any growth in the number of business start-ups, according to National Westminster Bank.

The NatWest Quarterly Start-Up Index, published today, shows that about 90,000 companies began trading in the second quarter of 1993, compared to 95,000 in the first three months of the year and 100,000 in the second quarter of 1992. The total of 185,000 for the first six months of 1993 is the same as that for the second half of 1992.

Mrs Jane Bradford, NatWest head of small business services, said: "Although there are signs that recovery in the small business sector is under way, the recession has hit small firms hard and, as a result, they are still very cautious about future prospects."

Russian trips suspended

Thomson, the UK market leader in holidays overseas, is suspending trips to Russia because of an outbreak of diptheria there. All the company's city-breaks to Moscow and St Petersburg are being cancelled from the start of next month and fares are being refunded.

Passengers due to travel this month are being offered refunds. They are being told that they should be inoculated if they decide to go. The company said hundreds of customers would be affected.

The Department of Health last month told travellers to Russia to ensure they were vaccinated against the disease.

Export officials to strike

Government officials at the Export Credit Guarantee Department's main office in Docklands, London, will take strike action today in protest at a consultants's report recommending staff reductions.

The CPSA, which will be taking action along with NUCPS, the other main civil service union, said the government still believed there were too many support staff working at the ECGD, which provides export assistance.

ECONOMICS

Indicators prompt market focus on inflation in UK and Germany

THE FLOW of UK official statistics continues this week with the latest figures for retail sales, retail price inflation and the public sector borrowing requirement.

Economists are expecting a fall in July retail sales as a correction to the inflated June figure, which was pushed up by early summer sales.

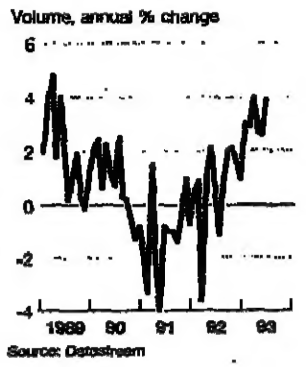
Price discounts in the high streets were also one of the factors pushing the June inflation rate down to 1.2 per cent. City economists are forecasting that it notched back up to 1.5 per cent in July, partly as a bounce back from June, but also because of certain other factors such as the ending of British Telecommunications' special offer on cheap rate local calls.

None the less, prices for seasonal food usually fall sharply in July and continuing summer sales will help keep prices low for clothing, footwear and household goods.

Most economists are confident that underlying inflation – the RPI excluding mortgage interest payments – will remain within the government's target range of between 1 per cent and 4 per cent for the rest of this year, although they expect it to have crept upwards in July.

This week also sees the release of west Germany's July producer prices which are expected to have stayed

UK retail sales



Source: Datastream

broadly flat, with inflationary pressures at the producer level very weak. However, M3 – also due this week – will show that the story at a consumer level is quite the opposite with prices still stubbornly high. June's annualised growth was 7 per cent. It is expected to have risen to 8 per cent in July.

Today: French and Belgian markets closed for holiday. Finland, July CPI (up 2.2 per cent on year). US, July industrial production (up 0.4 per cent), capacity utilisation (81.4 per cent). Japan, June industrial production, shipments.

Tomorrow: UK, July PSBR (£1.9bn). Sweden, July CPI (down 0.2 per cent on month, up 4.6 per cent on year). US, July housing starts (1.25m), building permits; Johnson Redbook week ended August 14; FOMC meeting in Washington. Canada, June building permits (up 2.8 per cent on month); July advance store sales (down 1.3 per cent on year). Japan, July money supply, broad liquidity. Australia, government budget handed down.

Wednesday: UK, July retail prices index (down 0.1 per cent on month, up 1.5 per cent on year), excluding mortgage interest payments (up 3 per cent on year); July retail sales (down 0.3 per cent on month, up 4.6 per cent on year). Sweden, July trade balance (SKr5.6bn). Canada, June manufacturing new orders (up 0.8 per cent on month), manufacturing shipments (up 0.4 per cent on month). Japan, June workers' PCE and workers' income.

Thursday: UK, July M4 (up 0.5 per cent on month, up 3.25 per cent on year), M4 lending (up £2.2bn); July building society net new commitments (up £3.2bn); revised Q2 GDP figures (up 0.5 per cent on quarter, up 1.5 per cent on year); National Institute publishes quarterly economic review. France, June industrial production (down 0.1 per cent). Sweden, July unemployment rate (9.5 per cent). US, June merchandise trade ($8.8bn deficit), exports ($39bn), imports (47.6bn); initial claims week ended August 14 (335,000); state benefits week ended August 7; August Philadelphia Fed Index; money supply data for week ended August 9; annual Kentucky Fed conference – Greenspan and Tietmeyer scheduled to speak. Canada, June merchandise exports (up 1.5 per cent on month), merchandise imports (down 0.4 per cent on month), merchandise trade surplus ($1bn). Australia, Reserve Bank of Australia releases 1992-93 annual report.

Friday: UK, July non-EC trade (£700m deficit). US, FOMC minutes from meeting on 6/7 July released; July Treasury budget (-$40bn). Canada, July CPI (up 0.2 per cent on month, up 1.6 per cent on year), excluding food and energy (up 1.6 per cent on year).

During the week: Germany, July PPI (up 0.1 per cent on month, down 0.3 per cent on year); July M3 from Q4 base (up 8 per cent). Netherlands, July unemployment rate (5.2 per cent). Italy, June WPI (up 5.1 per cent on year); June PPI (up 4 per cent on year); July M2 (up 5.6 per cent on year), July bank lending (up 4 per cent); August CPI (up 4.6 per cent on year). Denmark, July CPI (down 0.2 per cent on month, up 1.2 per cent on year). Switzerland, July trade balance (SFr400m surplus). Australia, Reserve Bank of Australia August bulletin released.

Emma Tucker

RESULTS DUE

The UK's two biggest insurance brokers, **Sedgwick** and **Willis Corroon** are expected to post pre-tax profits roughly the same level as last year when they report interim results.

Sedgwick, reporting tomorrow is expected to register pre-tax profits of between £48m to £58m (compared with £51.7m last year), while Willis, which reports on Thursday, is expected to make between £58m and £63m (£56.7m).

Both brokers are universally expected to maintain dividend rates, 3p for Sedgwick and a second quarterly dividend of 1.65p for Willis. Difficulties in the US market, which remains competitive, are one of the main factors holding back further improvement.

Meanwhile **Argos**, *the catalogue* retailer, is expected to benefit from the elimination of losses from the ill-fated Chesterman furniture business when it reports its interim results today.

Pre-tax profits of between £12m and £14m are expected against £9.5m last time. However the main focus of attention will be on current trading to see whether the post-Christmas pick-up is continuing.

Hanson, the Anglo-US conglomerate, is tomorrow expected to announce pre-tax profits of between £240m to £280m for the third quarter. This compares with £274m in the comparative year-ago period.

The group has been adversely affected by the strike at Peabody Coal in the US, which has cost it around £30m. However, the stronger dollar is expected to benefit it by a similar amount since more than half its profits are generated in North America.

BICC, the cables and construction group, is expected to report a fall in half year profits, from £58m to around £53m, on Wednesday. The company has suffered from the longevity of the UK recession, which has affected most of its markets.

On Thursday **Wickes**, the do-it-yourself group, is expected to show a 35 per cent improvement to about £3.5m when it reports interim results. The growth is likely to be the result of lower losses in its Hunter timber business, and some advance in the UK DIY retail chain.

UK COMPANIES

■ **TODAY**
COMPANY MEETINGS:
Tams (John), North Stafford Hotel, Stoke-on-Trent, 12.00
BOARD MEETINGS:
Finals:
Benson Group
Heath (Samuel)
Hoskins Brewery
Interims:
Alliance Tst.
GT Chile Growth Fd.
LGW
Seecon
Takare
US Smaller Co's Inv. Tst.

■ **TOMORROW**
COMPANY MEETINGS:
Walker & Staff Hldgs., Walker House, Boundary Street, E.C., 3.00
BOARD MEETINGS:
Finals:
Bucknall
Epwin
Evans Halshaw
Inpala Platinum
Stonehill
Interims:
BICC
De Beers Cons. Mines
De Beers Centenary
Fife Indmar
Fleming Mercantile Inv. Tst.
Kalon
Marley
Sedgwick
Sherwood Computer Services

■ **WEDNESDAY**
AUGUST 18
COMPANY MEETINGS:
Banner Homes, The Chequers Inn, Kiln Lane, Wooburn Green, Bucks., 10.30
Bristol Scotts, 79 New Cavendish Street, W., 10.30
Scantronic Hldgs., The Farmers & Fletchers Hall, 3 Cloth Street, E.C., 12.00
Wilshaw, The Tower Thistle Hotel, St. Katherine's Way, E., 11.30
BOARD MEETINGS:
Interims:
Britannic Assurance
Broadcastle
City Centre Restaurants
Dunedin Inc. Growth Inv. Tst.
M & G Income Inv. Tst.
M & G Recovery Tst.
North Midland Constn.
Richardsons Westgarth
Rosebys
Trade Indemnity

■ **THURSDAY**
AUGUST 19
COMPANY MEETINGS:
Avesco, Venture House, Davis Road, Chessington, Surrey, 11.00
Bromsgrove Inds., Natl. Motorcycle Museum, Coventry Road, Bickenhill, Solihull, West Midlands, 12.00
Burtonwood Brewery, Rake Hall Hotel, Rake Lane, Little Stanney, Chester, 12.00
Cook (Wm.), Parkway Avenue, Sheffield, 12.00
Kembrey, Crowne House, 56-58 Southwark Street, S.E., 12.15
Southern Water, Dome Theatre, Church Street, Brighton, East Sussex, 11.00
Vistec, The Midland Hotel, Derby, 1.00
BOARD MEETINGS:
Finals:
Bristol Channel Ship
County Smaller Co's Inv. Tst.
Interims:
ASEA
Dawsongroup
Ericsson (L. M.)
Wickes
Willis Corroon

■ **FRIDAY**
AUGUST 20
COMPANY MEETINGS:
Fuller, Smith & Turner, Griffin Brewery, Chiswick, 11.00
Hartstone, Hartwell House, Oxford Road, Bucks., 3.00
BOARD MEETINGS:
Finals:
Raglan Property Tst.
Interims:
Jourdan (Thomas)

Company meetings are annual general meetings unless otherwise stated.

Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

DIVIDEND & INTEREST PAYMENTS

■ **TODAY**
Allied-Lyons $0.27
Anglo American Inv. Tst. 6% R0.6
Aon Corpn. $0.36
API Group 3.85% Cm. Pf. 1.925p
British Steel 1p
Danka Business Systems 3p
Eurofima 6½% Nts. 1995 C$325
Feedback 1.5p
Marks & Spencer $0.6858
Marsh & Mclennan Inc. $0.675
M & G Dual Tst 30.55p
Mountview Estates 12p
National Westminster Bk. Prim. Cap. Fltg. Rate $182.26
Queensland Treasury 10¼% Gtd. Bds. '95 $512.5
Sainsbury (J.) $0.138
Sanyo Electric Fltg. Rate '97 Y230,866
Scottish Metro. Prop. 0.4p
Sharp Intl. Finance Gtd Step '94 Y520,000
Do. 7⅝% Gtd Nts 1994 Y762,500
Shelton (Martin) 1.5p
State Bk. Of New Sth. Wales Extenible Fltg. Rate '98 $180.69
Uberior Inv. 14⅞% Sub. Gtd. 2000 A$371,875
Unigate $0.197
United Kingdom 2½% Index-Linked Treasury '13 £1.9506
Whitbread $1.255

■ **TOMORROW**
Courtaulds $0.196
Cropper (James) 2.125p
Eksportfinans Fltg. Rate Nts. 2003 $25.14
National & Provincial Bldg. Soc. Fltg Rate '99 £157.80
Vosper Thornycroft 11.1p

■ **WEDNESDAY**
AUGUST 18
Bradford & Bingley Bldg. Soc. Collard Fltg. Rate '03 £35.02
Britannia Bldg. Soc. Fltg. Rate £156.90
Chase Manhattan Fltg Rate Sub . 2000 $127.78
Cigna Overseas Finance 12⅝% '93 £123.75
Credit Foncier de France 10¾% Gtd. 11/14 £512.50
ERF Hldgs. 2p
First Chicago Fltg. Rate Sub. Cap. '97 $134.17
Forte 10% Mort. Deb. '18 £5
General Motors Acceptance (Canada) 8¾% '94 ECU87.5
Investment Company 1p
Leeds Permanent Bldg. Soc. Fltg. Rate '03 £34.71
Lloyds Bank Var. Rate. Sub. '98 £170.14
Midland Bk. Sub. Fltg. Rate £78.45
National Westminster Bk. Var. Rate £171.71
Vodafone Group 3.53p
Wells Fargo Fltg. Rate Sub. Cap. '98 $86.25
Woolwich Bldg. Soc. Fltg. Rate '94 £157.53

■ **THURSDAY**
AUGUST 19
Archer (A. J.) 0.5p
Daido Steel 4.8% 1997 Y128,000
Norsk Hydro AS 8% 1993 FFr800

■ **FRIDAY**
AUGUST 20
Anglovaal R0.65
Bankamerica $0.35
BTP 6.05p
Burtonwood Brewery 3.98p
Caterpillar Inc $0.15
Fuller Smith & Turner 5p
Hunters Armley 1.25p
Malaysia Mining M$0.03
Melville Street Inv. 2.5p
M & W 1.1p
Pilkington 1.07p
Rothmans Intl. 7.5p
Tams (John) 2.41p
Toyobo Co. Y92,636.89
Wellmair 0.6p
Wells Fargo & Co. $0.50
Zandpan Gold Mining R0.105

■ **SATURDAY**
AUGUST 21
United Kingdom 10½% Exchequer Stk. '97 £5.25

■ **SUNDAY**
AUGUST 22
NFC 7¾% Conv. Bds. 2007 £38.75
TSB Offshore Inv. Fund Gilt & Fixed Int. 2.915p
Do. Sterling deposit 1.312p
United Kingdom 12½% Exchequer Stk. 1994 £6.25

CONTRACTS & TENDERS

IN THE NAME OF GOD

IRAN WATER & POWER RESOURCES DEVELOPMENT COMPANY
AGENCY OF THE MINISTRY OF ENERGY OF THE GOVERNMENT OF THE ISLAMIC REPUBLIC OF IRAN

INVITATION FOR PREQUALIFICATION OF APPLICANTS FOR LOT 1 MAIN CIVIL WORKS GODAR-E-LANDAR HYDROELECTRIC POWER PROJECT

Iran Water & Power Resources Development Company (IWPC) *requires applicants supply information for prequalification of* Lot 1 Main Civil Works of the 4 x 250 MW Godar-e-Landar *Hydroelectric Power Project in the Khuzestan Province of the* Islamic Republic of Iran.

The Project Site is located at about 160 km distance from Ahwaz, the centre of the province.

The principal works for the Lot 1 Main Civil Works are as follows:

- 164m - high rockfill dam with 480m crest length
- *Spillway, 72.5m chute width and 390m chute length*
- Two power intakes
- Two pressure shafts, 8.5m/7.5m inside diameter, 230m (left) and 275m (right) length
- Underground powerhouse cavern, 151m length, 30m width and 47.5m height
- Underground transformer cavern, 115m length, 15m *width and 23.5m height*
- Two tailrace tunnel, 10m inside diameter, 235m (left) and 300m (right) length
- Two downstream surge chamber, 22.5m diameter, 50m height

Prequalification Documents can be obtained upon cash payment of a non refundable amount of 200.000 Rls.

The foreign currency element of the Lot 1 Main Civil Works is financed by The Overseas Economic Cooperation Fund of Japan (OECF). Since August 16, 1993, Prequalification Document may be obtained personally by applicants or their authorized representatives at the following address, and complete prequalification application should be submitted before 12:00 hours noon on Wednesday, September 15, 1993 at the following address:

Iran Water & Power Resources Development Company
212 Ostad Nejatollahi Ave,
Tehran, Iran

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CONFERENCES & EXHIBITIONS

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Fax ++ (0) 41 552 0511
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The national conference and exhibition for the whole fire protection profession.
The Scottish Exhibition & Conference Centre, Glasgow.
For Free exhibition admission tickets contact Jane Malcolm-Coe,
FMJ International Publications Ltd.
Tel: (0737) 768611 Fax: (0737) 761685
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SEPTEMBER 27 - OCTOBER 1
Managing for Continuous Improvement
First of three sessions to create internal experts, giving the concepts, tools and techniques needed to transform traditional organisations into high performance organisations.
Contact: Tennessee Associates Ltd., FREEPOST, Witney, Oxon.
Tel: (0993) 883633
Fax: (0993) 882733
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OCTOBER
Invest in your evenings
London Business School's long-established finance evening programmes for experienced managers and finance professionals start in October. The Corporate Finance and Investment Management programmes require attendance on one evening per week and the Masters Degree in Finance requires two years of part-time study. For details call Janet Dobson on 071-262 5050 or fax 071-724 3317
LONDON

OCTOBER 4 - NOVEMBER 22
FT - City Course
The objective of the course is to provide an understanding of all aspects of the operations of the City and the factors that make it a pre-eminent financial and trading centre.
Enquiries: Financial Times
Tel: 071-814 9770
Fax: 071-873 3975/3969
LONDON

OCTOBER 12 & 13
Retailing in the 90s
The aim of the meeting is to provide a high-level forum to review the opportunities and challenges facing the industry, consider partnerships and customer needs as well as performance and profitability.
Enquiries:
Financial Times,
Tel: 071-814 9770
Fax: 071-873 3975/3969
LONDON

OCTOBER 14
City of London Derivatives Conference
To be opened by Dr Henry Kaufman this Cityforum conference covers the markets, their regulation, maximising their benefits and controlling the risks. Central Banking and The Centre for the Study of Financial Innovation, *Swiss Bank Corp, Arthur* Andersen and Freshfields sponsor.
Information:
Marc Lee, Cityforum Ltd.
Tel: 0225-466744
Fax: 0225-442903
LONDON

OCTOBER 20
Manufacturing Matters
To raise the voice of manufacturing and examine the options for industry before the new Budget. Speakers: Rt Hon John Smith MP, Neil Johnson, Howard Davies, Ian Gibson, Bill Jordan, Sir Alistair Morton, Pendarell Kent, Dr Ken Edwards. QE II CENTRE Westminster.
Information:
Julia Hobsbawn Associates
Tel: 071 267 2565
LONDON

NOVEMBER 16 & 17
World Electricity
The aim of the meeting, the seventh in an annual series, is to provide a high-level forum to discuss issues of concern to electricity utilities, and review *developments in a number of key* markets.
Enquiries:
Financial Times
Tel: 071-814 9770
Fax: 071 873 3975/3969
LONDON

NOVEMBER 22 & 23
The Fifth FT Petrochemicals Conference
The aim of this year's meeting is to provide a high-level forum to discuss the challenges currently facing the petrochemical industry and examine developments by key markets.
Enquiries: Financial Times
Tel: 071-814 9770
Fax: 071 873 3975/3969
LONDON

INTERNATIONAL

SEPTEMBER 16
New Global Free Markets: Strategies & Policies
Keynote Speaker: Michael Kantor, US Trade Representative. Meet Trade Representatives and business leaders from over 100 countries. Learn about investment, joint venture, import-export opportunities in newly opened markets.
Tel: 202/797-9631,33,34,78 or
Fax: 202/797-9635
Contact: Milo Tuss
WASHINGTON, D.C.

SEPTEMBER 22-24
Intermedia Europe 1993
The third European Conference and Exhibition on Multimedia and CD-ROM, takes place in Wiesbaden, Germany.
For more information, please contact Reed Exhibition Companies, Düsseldorf
Tel: +49-211-556281
Fax: +49-211-556231
WIESBADEN

SEPT 29/30 & OCT 1
The Health of Nations 1993
Health of Nations: Demand, Cost & Efficiency on policy issues and impact on providers, suppliers and investors. James Watson, Ralf Krebs and Lady Cumberlege address this international conference sponsored by The Wall Street Journal Europe, medical, pharmaceutical, health care bodies, consultancies and banks.
Information: Cityforum Ltd
Tel: 0225-466744 Fax: 0225-442903
EDINBURGH

OCTOBER 13-15
Black Sea States Conference & Business Forum
Exploring new markets and business opportunities in the Black Sea States, Turkey & Central Asia. Individual meetings with ministers from twelve country delegations, TACIS/Legal and Contracts Workshop.
Contact: INTERFORUM
Tel: +44 (0) 71 386 9322
Fax: +44 (0) 71 381 8914
ISTANBUL

OCTOBER 14-15
EUROAID '93 Conference
European Community Aid for Development
Aid Programme opportunities for EC companies (40 billion ECU by 1999) in: Africa, Caribbean, Pacific, Asia, Latin America, Mediterranean, Central & Eastern Europe and CIS. Contact: Société Générale de Développement S.A.
Tel: +32 2 512 4636
Fax: +32 2 512 4653
BRUSSELS

OCTOBER 14-18
IBTS 93
International exhibition of broadcasting and telecommunications equipment. Reserved for trade only.
For further information, contact:
Fiera Milano, Largo Domodossola 1, 20145 Milan, Tel: (39 2) 49971, Fax (39 2) 4997 7179 or, in the UK: OTSA Ltd, Tel: 071 486 1951.
MILAN

OCTOBER 15-18
64th MIPEL
International exhibition of leather goods, Spring/Summer '94 collections. Reserved for trade only.
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Fax (39 2) 4997 7179 or,
in the UK: OTSA Ltd, Tel: 071 486 1951.
MILAN

OCTOBER 16-18
22nd INTERSAN
Technical and sanitary orthopedics, sanitary articles, surgical implements, hospital equipment, physioelectro-medical apparatus, corsets, sanitary articles for infants and aids for the disabled. For further information contact: Fiera Milano, Largo Domodossola 1, 20145 Milan
Tel: (39 2) 49971,
Fax (39 2) 4997 7179 or,
in the UK: OTSA Ltd,
Tel: 071 486 1951.
MILAN

OCTOBER 18-24
53rd CICLO & MOTOCICLO
International exhibition of bicycles and motorcycles. *Open to trade and the* general public.
For further information, contact:
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in the UK: OTSA Ltd,
Tel: 071 486 1951.
MILAN

OCTOBER 21-25
EXPO DETERGO 93
International exhibition of equipment, services, products and accessories for laundry, ironing and cleaning of textiles. Reserved for trade only. For further information, contact: Fiera Milano, Largo Domodossola 1, 20145 Milan
Tel: (39 2) 49971
Fax: (39 2) 4997 7179 or
in the UK: OTSA Ltd,
Tel: 071 486 1951
MILAN

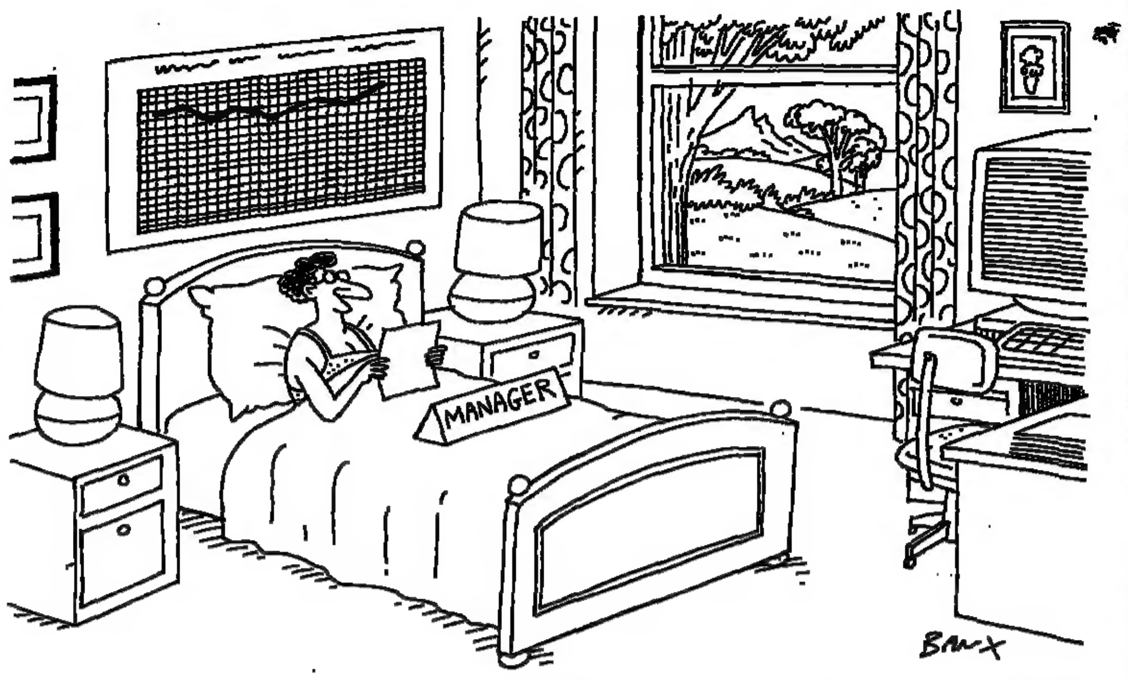
OCTOBER 24-29
60th MIFED
International Multimedia Market for cinema and television. Reserved for trade only. For further information, contact: Fiera Milano, Largo Domodossola 1, 20145 Milan
Tel: (39 2) 49971
Fax: (39 2) 4997 7179 or
in the UK: OTSA Ltd,
Tel: 071 486 1951
MILAN

NOVEMBER 8-10
After the Recession - World Commercial Aviation at the Crossroads
The conference will focus on the great changes that are taking place in the world airline and aerospace industry. The impact of globalisation and multilateralism will be assessed as well as the manufacturer's role in meeting future aircraft demand.
Enquiries: Financial Times
Tel: 071-814 9770
Fax: 071 873 3975/3969
DUBAI

MANAGEMENT

Employers are adopting a far more flexible approach to traditional working practices, writes **Victoria Griffith**

Home is where the office is



When Donna Cunningham, media relations manager for Bell Labs, goes to work in the morning, she simply walks from the kitchen of her house, deep in the woods of Vermont, to a small room she uses as her office.

Headquarters is a six-hour drive away in New Jersey, but Cunningham says she keeps in touch easily through a host of technologies from electronic mail to video conferencing.

"I get a tremendous amount of work done," says Cunningham. "The biggest distraction I might have here is if a deer happens to pass by my window." Cunningham is part of a growing trend in the US which is not only allowing, but actively encouraging, employees to work outside the office. A distance of six hours is still more than most employers are willing to put up with, but the traditional notion of an office as a place workers must report to every day is giving way to a far more flexible approach.

Home offices are just part of the new trend. Companies are making heavy use of telecommuting, a policy which allows employees to go to the office one or two days a week and spend the rest of the time with clients or working at home. Several groups have also pioneered the concept of "hoteling", a systemised policy of office-sharing for workers who spend a small portion of their time at the office.

Companies have been experimenting with the concept of working from home and telecommuting for more than a decade. However, over the past few years several groups have formalised the approach, incorporating large numbers of employees into the plan.

"We've been practising telecommuting informally for years, but now, we've adopted it as a formal policy," says Susan Sears, district manager of AT&T in Phoenix, Arizona.

One management consultant firm, Buck Consultants, estimates that between 10 and 20 per cent of the US workforce will spend a significant amount of time working at home by the end of the century.

The concept, companies say, is working well. According to an AT&T survey, 83 per cent of the 45 employees involved in a pilot telecommuting programme in Phoenix for the past few years said they had increased their productivity, and 80 per cent of their supervisors agreed. International Business Machines also noted an increase in productivity following the implementation of telecommuting programmes a few years ago. Today, more than one third of the IBM workforce does some portion of their work at home.

A number of large US firms, including IBM, AT&T, Ernst & Young, Arthur Andersen and Dun & Bradstreet, say they are adopting the telecommuting concept as a key management strategy.

"We certainly plan to expand the programme," says Michael Bell, director of corporate real estate at Dun & Bradstreet. "It's been a tremendous success."

Employers say workers under telecommuting and work-at-home programmes are more efficient because they have fewer distractions and waste far less time commuting.

Russell Thomas, a specialist on telecommuting with AT&T says: "Before we adopted telecommuting we had situations that people would drive one and a half hours to the office, stay for a few hours, drive an hour to visit a client, come back to the office, then leave for the day. Obviously, there was a big loss in productivity going on." In response, AT&T launched the concept of the "virtual office", a mobile office, complete with laptop computer and fax, which the employee could use in a hotel, branch office, or at home.

A number of factors are adding to the telecommuting impetus. One of the most important is the Clean Air Act, which by 1996 will force many companies in the US to cut the number of miles driven by single-car commuters by 25 per cent. The aim of the new law is to reduce vehicle pollution in the smog-ridden metropolitan areas.

Kenneth Maikiewicz, a transportation consultant with Raymond Keyes Consultants, says: "Companies will use telecommuting as one important way of reducing vehicle trips."

Improvements in technology are also fuelling the trend. "Technology is the key to making all this work," says Michael Thompson, operations and facilities director at Ernst & Young. "We give people faxes, notebook computers, everything they need to work outside the office."

With technologies such as cellular telephones and electronic mail moving into widespread use, companies predict telecommuting will become easier. Improved computer data access will also play an important role. "We are giving employees the capability of accessing all company files from a home computer," says Thompson. "It will make telecommuting even more efficient."

Increasing cost-consciousness has also encouraged companies to consider telecommuting as a formal strategy. "When the economy was booming," says Thompson, "companies didn't care as much about real estate costs. But that's become a real issue now."

Dun & Bradstreet Software cut real estate expenses by 30 per cent through the use of telecommuting, even after buying high-technology home equipment for workers, according to Jennifer Oden, director of real estate and services at the group.

Ernst & Young, in its Chicago office, has adopted a strategy of employee expansion with no added space. A year ago, the firm pioneered the concept of "hoteling", a sophisticated office-sharing plan, to help it meet its cost-cutting goals. Under "hoteling", employees who spend a lot of time with clients – including auditors and management consultants – are not assigned a permanent desk. They are expected to spend most of their time outside the office, and when they plan a visit, they must call to reserve a place.

On the day an employee is expected in the office, all calls are automatically forwarded to that extension, and the information appears on a computerised "staff locator system" to help colleagues find co-workers. A small staff of "hoteling managers" makes sure the employee's nameplate is placed on the door and will even put family photos on the desk to make the employee feel at home.

Of course, telecommuting does pose some disadvantages to both worker and supervisors. Ernst & Young complains of workers with a strong territorial instinct, who try to take exclusive hold of a temporary office.

Employees sometimes worry about their chances of promotion if they are out of the office for long periods of time. "It would be extremely difficult for me to move up in the company," says Cunningham of Bell Labs. "But I accepted that when I agreed to work at home."

Other workers may have unrealistic ideas about the benefits of telecommuting. "You have to screen workers carefully before you put them into a programme like this," says Charles Rodgers, president of Rodgers & Associates, a management consultancy specialising in telecommuting issues.

"Some mistakenly believe that this will be a solution to their child-care problems. Others might miss the stimulation of conversing with co-workers and still others may not have the self-motivation to make this work."

The biggest obstacle to a successful telecommuting programme, though, may be the resistance of management. "A lot of supervisors are uncomfortable with this arrangement," says Rodgers. "Many mangers have the idea that visibility equals productivity. They feel if they can't see the work being done, it isn't getting done."

Despite some resistance on the part of employees and supervisors, companies say the concept works well. "It improves productivity, helps us address environmental issues and cuts down on real estate costs," says Ann Riley, project leader for work life programmes at IBM.

"It is an extremely successful programme which we will certainly take as far as we can."

Taking stock of windfalls

Executive share options face closer scrutiny, says **Lucy Kellaway**

The days when directors of badly performing companies could enjoy windfall gains from exercising their executive share options are over. Last month's joint announcement from Britain's largest investor bodies has put a stop to that: from now on any scheme that does not relate the exercise of share options to the company's performance may find itself slung out by shareholders.

The long-awaited recommendation from the Association of British Insurers and the National Association of Pension Funds has left companies alternately gnashing their teeth and scratching their heads: Most objected vigorously to any idea that their schemes should be tied to performance and many wrote to the NAPF last year to complain when it asked them for their opinions. They must now accept that their battle is lost.

At the same time as protesting against any performance link, companies pleaded for flexibility. In this their pleas have been answered. The guidelines do not refer to any particular measure of performance, but simply state there should be "significant and sustained improvement in underlying financial performance". However the vagueness of this recommendation has left them in the dark. What sort of performance link will be acceptable?

The question is of pressing interest to companies as most of their 10-year schemes come up for renewal next year. For the new schemes to win shareholders' approval, they must not only be linked to performance, but must have been drawn up by the company's independent remuneration committee and the guidelines must be published in the annual report.

According to Mark Anderson of New Bridge Street Consultants, executive pay experts, companies are feeling in need of guidance on how stringent the performance targets should be. But the investor bodies – which have taken almost a year to agree on the recommendation – seem in no mood to lay down more precise guidelines.

"Our message is that whatever your remuneration committee recommends is the most appropriate measure. If the committee can't come up with a reasonable measure there are 101 consultants out there who would be only too happy to find them one," says John Rogers from the NAPF.

So which measures will companies choose? Perhaps the simplest is that initially proposed by the NAPF: relative share-price performance. It suggested that directors should be allowed to exercise share options only if their shares out-performed the market index, or a sub-index over a given period.

The main alternative is to use profit-related measures, originally preferred by the ABI. Both yardsticks have weaknesses, share prices can be inflated by bid pressure and reflect future as well as past performance. Profit measures on the other hand have been complicated by new accounting rules which make earnings more volatile.

Once the measure has been selected how stringent should the target be? Is any out-performance of the share price enough? Should earnings be in the top quartile of the industry group, or is it enough merely for them to rise faster than inflation.

These are issues that each remuneration committee will have to decide and it will be a delicate balancing act. "You don't want something so difficult that the options will never kick in, but you don't want something so easy that it is a joke," says Hugh Jones from the Prudential. He argues that to strike the balance should not be too difficult: after all there is an element of judgment in all business decisions and this one is no exception.

Shareholders hope the discipline of having to disclose the basis for the schemes will concentrate the minds of companies. Moreover, the non-executive directors who sit on remuneration committees will have the sobering thought that if they nod through schemes that are too generous, they might find themselves out of a job when reselection time comes round again.

CONSTRUCTION CONTRACTS

£50m work for Tilbury Douglas

TILBURY DOUGLAS CONSTRUCTION has been awarded a series of orders together worth £50m. The largest is a contract awarded by John Lewis to build a chilled distribution depot for Waitrose at Bracknell. The contract is being carried out by the south east regional office based in Chiswick. Work on a £6m wholesale warehouse in Essex is also under way.

In the Midlands Tilbury Douglas has won contracts in the public sector to refurbish a wing at Winson Green Prison, to build a care centre in Quinton for South Birmingham Health Authority, to extend the social studies facility at the University of Warwick, and to re-roof buildings at Donnington for the MoD.

The north east regional office won six orders in July with a value of over £8m. They include a new headquarters for the Darlington Building Society in Darlington; two factory units for English Estates at Goldthorpe, Barnsley and Seaham Grange; and the refurbishment of the students union building for the University of Newcastle upon Tyne.

Energy saving

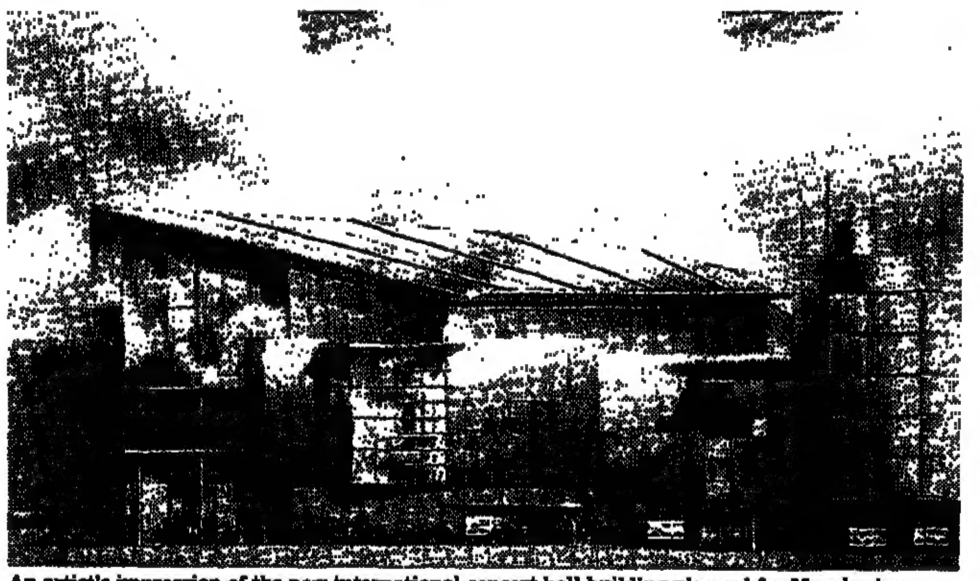
Anglia Polytechnic University is to receive funding from the European Community under the THERMIE project, a five-year European Community programme to promote the design and use of new energy saving technology.

The successful bid is in respect of innovatory energy efficient elements incorporated into the design of Anglia's Learning Resource Centre, the first phase of the new university campus in Chelmsford. The £4.9m centre, which is to be built by WIMPEY CONSTRUCTION, is due for completion in summer 1994.

The building will incorporate design concepts to reduce energy costs by up to 50 per cent and will obviate the need for an air conditioning system by use of stack ventilation towers to improve through ventilation.

Good daylighting is another key element and will be enhanced by windows with light shelves to reflect light deeper into the building.

International concert hall



An artist's impression of the new international concert hall building planned for Manchester

LAING NORTH WEST has been appointed to build Manchester's international concert hall, the new home for the Hallé. Work is due to start on site today with completion scheduled for February 1996.

The total cost of the project will be around £42m. The company's bid for the main building contract was accepted by the partners in the venture, Manchester City Council and Central Manchester Development Corporation, who are jointly funding the project with the aid of a 40 per cent grant from the European Regional Development Fund.

Laing North West won the contract in competition with four other large construction companies, shortlisted from 30 leading companies who expressed an interest in the project.

Preparation work has been completed by P Casey (Civil Engineering), which has removed 26,000 tonnes of soil to make way for the concert hall. It has also put in the foundations for the building, including more than 150 reinforced concrete columns.

One of Laing's first jobs on site will be to install vibration isolation bearings on to the columns – literally creating a foundation of springs – to isolate the hall from passing traffic, including Metrolink trams.

Medical centre in New York

AMEC group companies have won overseas work in the last two weeks worth more than £130m.

In the US, AMEC's American project management company, Morse Diesel International (MDI), in which the group has a 50 per cent stake, has just won a $160m (£106m) contract for the construction of a 735,000 sq ft, 18-storey, multi-use medical centre at Mt Sinai in New York.

MDI will undertake preconstruction and construction management on the project which will be finished in September 1995, and will house a multitude of research, psychiatric and office facilities with a multi-storey parking garage on lower levels.

In Hong Kong, AMEC Electrical and Mechanical Engineers has won three contracts worth nearly £30m on Hong Kong government projects.

The largest, at £18.5m, is for the supply and installation of building services, including steam and fire detection systems, on the new Alice Ho Miu Ling Nethersole Hospital in Tai Po, Hong Kong. The 642-bed hospital project consists of four linked buildings and associated facilities. AMEC's subcontract, to main contractor Aoki, is due for completion in February 1996.

AMEC has also won a £7.2m contract to supply and install air conditioning and ventilation systems for the new Hong Kong police headquarters complex, which is a 33-storey building with a floor area of 47,000 sq metres. Included in the contract is the provision of 31 specialised computer room air conditioners, manufactured by AMEC sister company, Denco UK.

Upgrading RAF garrison in Yorkshire

TRAFALGAR HOUSE CONSTRUCTION MANAGEMENT has secured two new project management contracts worth £11m.

The largest is a £8.7m project to oversee the redevelopment of the RAF's Catterick Garrison in North Yorkshire as part of the Ministry of Defence's Options For Change programme. When the two-year contract is completed the base will provide a home for two army regiments currently based in Germany.

The second contract is for a £2.2m cookery school at HMS Raleigh, the new entry training establishment for the Royal Navy at Torpoint, Cornwall.

Handling China's grain

The World Bank has appointed LG MOUCHEL & PARTNERS as chief adviser to the Chinese Ministry of Domestic Trade in a large investment programme to improve the efficiency of China's domestic and international grain management.

A network of modern storage installations will be constructed including local primary depots servicing a number of farms, intermediate depots at strategic railheads and installations of up to 300,000 tonnes capacity at a number of deepwater ports.

The storage installations will be equipped with appropriate aeration and drying facilities to conserve the grain and bulk handling methods for grain will be introduced to replace the traditional bagged handling methods.

At the port locations, modern high capacity bulk ship loading and unloading equipment and deepwater berths will allow the transport of grain by large bulk grain carriers which can transport their cargo to large population centres in China or to overseas markets.

Transit system

ACER MUHENDISLIK MUSAVIRLIK has been appointed to carry out project supervision and consulting services for Phase 1 of the Ankara Mass Transit System.

Known locally as ANKARAY, the Ankara Mass Transit System began in August 1992 when Phase I was commissioned.

A consortium made up of Siemens (Germany), AEG Westinghouse (Germany), BREDA (Italy), Bayindir-Yuksel JV (Turkey) and SILO (Turkey) was awarded the commission by the Municipality of Greater Ankara, under a contract consisting of design, construction and trial operation.

Acting as sub-consultants to the principal consultant TEMAT, Acer will carry out project supervision and consulting services during construction, commissioning and trial operation periods. Acer will also conduct an intensive review of the design and advise on any problem areas.

PEOPLE

NatWest Markets combines its IT

NatWest Markets has brought Tomasz Herbich, previously managing director for global trading technology at Bankers Trust, into a new role as director of information technology.

The corporate and investment banking arm of National Westminster Bank has been formed out of many constituent parts, including County NatWest and NatWest's treasury department, hence also throwing together many different types of system.

There were also three separate technology heads – variously looking after the front office, back office, and data and telecommunications. Now those three heads report to Herbich, whose task it is to co-ordinate and develop the group's IT capabilities both in London and abroad.

"I was very agreeably surprised as to how much importance NatWest's senior management attaches to technology," says Herbich, who adds that the areas particularly targeted for systems development are equities, capital markets and treasury.

Herbich, of Polish extraction but reared in Scotland, has degrees in operational research and management science.

He has spent the past 16 years at Bankers Trust, partly in London, partly in New York. Bankers Trust's front office trading system REMOS, which has been sold on to a number of other banks, was Herbich's brainchild, first developed for foreign exchange in 1983.

He had been at the US investment bank's headquarters since 1991, but wanted to return to the UK, since he was regularly commuting across the Atlantic to see his wife who had stayed in London.

Bodies politic

■ Margaret Charrington, acting director of the Invest in Britain Campaign and a founder member of the Women's Farming Union, has been appointed chairman of the HORTICULTURAL DEVELOPMENT COUNCIL.

■ Robin Plumbridge, chairman and ceo of Gold Fields of South Africa, has been elected chairman of the WORLD GOLD COUNCIL.

■ Mark Brockbank, group managing underwriter, The Brockbank Group, Lloyds, and Stephen Redmond, group marine underwriter, Eagle Star Insurance, have been elected chairman and deputy chairman, respectively, of the JOINT HULL COMMITTEE.

■ Ian Cunningham, formerly chief executive of Roffey Park Management Institute, has been appointed chairman of the newly-formed CENTRE FOR THE STUDY OF CHANGE.

■ Peter Morris, special projects director for Bovis, has been appointed chairman of The ASSOCIATION OF PROJECT MANAGERS.

■ Nicholas Hutton, chairman and md of Greenup & Thompson, has been invested as president of the BRITISH PRINTING INDUSTRIES FEDERATION.

■ Tim Noble, formerly md of Costain's process contracting division, has been appointed director of engineering at BRITISH WATERWAYS.

■ Pamela Edwards, a director of East Midlands Electricity (Generation), has been elected vice-president of The INSTITUTION OF MECHANICAL ENGINEERS.

■ Jeffrey Greenwood, senior partner of Nabarro Nathanson, has been appointed to chair the CENTRAL COUNCIL FOR EDUCATION AND TRAINING IN SOCIAL WORK; he replaces Berrick Saul.

Mill quits NCR

NCR, one of the top five US computer giants, has lost its UK chairman, Patrick Mill, after "personal disagreements" between him and the group's European head Joe Stephan.

The new UK chairman is Philip Mantle, 43, who has spent the past 25 years working for NCR across the world. He is currently managing director of the company's business in Turkey, having previously held posts in Latin America, the Middle East and Africa.

NCR's parent, the US telecoms giant AT&T, is currently battling for a licence to operate in the UK. If it succeeds, NCR's UK sales and marketing team of 1,900 could come in useful.

NCR also has two manufacturing plants in the UK, employing 2,300 between them. But both are managed directly from the US and will not be part of Mantle's remit.

Change of direction at EIU

Nico Colchester, deputy editor of The Economist who failed to secure the top job earlier in the year, is moving to the Economist Intelligence Unit at the end of this month as editorial director.

At the same time, Helen Alexander, previously international circulation director of the Economist, becomes managing director of the EIU.

"I had long thought that it was rather an attractive job – not that I didn't already have a pretty attractive job," says Colchester. Ironically, Bill Emmott, who beat Colchester to the editor's seat in what the latter refers to as "that fateful selection process", had recently been on secondment for six months at EIU doing that very job.

When it became clear he was not to become the next editor of the newspaper, 46-year-old Colchester, who was foreign editor of the Financial Times before moving to The Economist in 1986, says he looked around at other options, but admits that now is not "a frightfully good time in the economic cycle". He also put his name forward for the EIU.

Now he is pleased to be running his own show – one with a turnover of £29m, compared with £87m at The Economist. He also thinks that "there is a lot of scope for enhancing the public image of the EIU. It has rather hidden its light under a bushel, not having had much of a front man."

Alexander, who is understood to have turned down a highly lucrative outside offer to accept the EIU position, joined The Economist in 1985. She has recently been responsible for marketing and circulation in all regions outside North America.

Architecture/Colin Amery

Tales of two cities

When the summer feels more like the autumn, which it does in England this August, there are only two things to do. One is to escape to the sun, the other is to curl up with a good book. I suppose you could combine the two activities, but I have never found it easy to read on a beach or to do anything very much at all in the hot sun.

Two good new books this summer may give readers the opportunity to mug up a bit on some appropriate regional architectural history before they travel or even to get on with some continuing education of a fairly serious kind.

As far as I know, there is not yet a bluffers' guide to Tuscan towns or a simple introduction to the Baroque of the Balearics. But there are other ways of immersing the mind in architecture and often the less obvious books are the best.

Visitors to the Edinburgh festival can this year enjoy the architecture of the city with a new edition of Charles McKean's guide book. *Edinburgh: An Illustrated Architectural Guide* (published by the Royal Incorporation of Architects of Scotland, £9.95, 236 pages). This new edition of the guide was sponsored by The City of Edinburgh District Council and Edinburgh Enterprise Limited for the European Summit last December, but it is a timeless guide that should be in the hands of every visitor to the Edinburgh festival.

It is an advantage to have a pocket-size guidebook, but I wish for more from Mr McKean particularly because his picture research is so good. The are wonderful visions that were never built, like Robert Adam's 1791 proposal for a new bridge to link Calton Hill to Prince's Street, and J. Dick Peddie's view of a completed Parthenon high above the city.

The author is also good at making the visitor look about him and think of the future of the city as well as what is before him. As McKean says, Edinburgh is about to have a new Opera House, a conference centre, a new headquarters for Scottish administration and the sizeable Maybury business park.

Does the city have a policy for the residential rejuvenation of the Old Town or for phoenix-like transformations to follow on that of Leith? What about the future of the Trinity area, which McKean memorably describes as a home for the "unbuttoned mercantile princes of Leith and artists, maiden ladies and mistresses?"

Edinburgh is much enlivened by this book, with its clear explanations of the differences between the old and the new towns of Edinburgh and its simple exposure of the incredible architectural wealth of a city that still keeps many of its glories, both classical and gothic well hidden from its native residents as well as festival guests. Mr McKean opens Edinburgh's architectural doors.

*

From the Athens of the North to Rome. I was fascinated by a book about that intriguing Roman building the Villa Madama which, although unfinished, remains a key point of reference in Italian Renaissance architecture. *Villa Madama: a memoir relating to Raphael's project* by Guy Dewez (Lund Humphries £35, 184 pages) is an unusual kind of architectural history.

The author uncovers the plans and proposals of Raphael for his patron, Cardinal Giulio de Medici, who was the first cousin of and Secretary of State to Pope Leo X.

Construction began on the villa in 1518, but Raphael died in 1520 and, although work continued under the direction of Giulio Romano, it was never completed. It was a project of great importance in the early Cinquecento, ranking with the Michaelangelo commissions in Florence and marking the importance of the Medici presence at the gates of papal states.

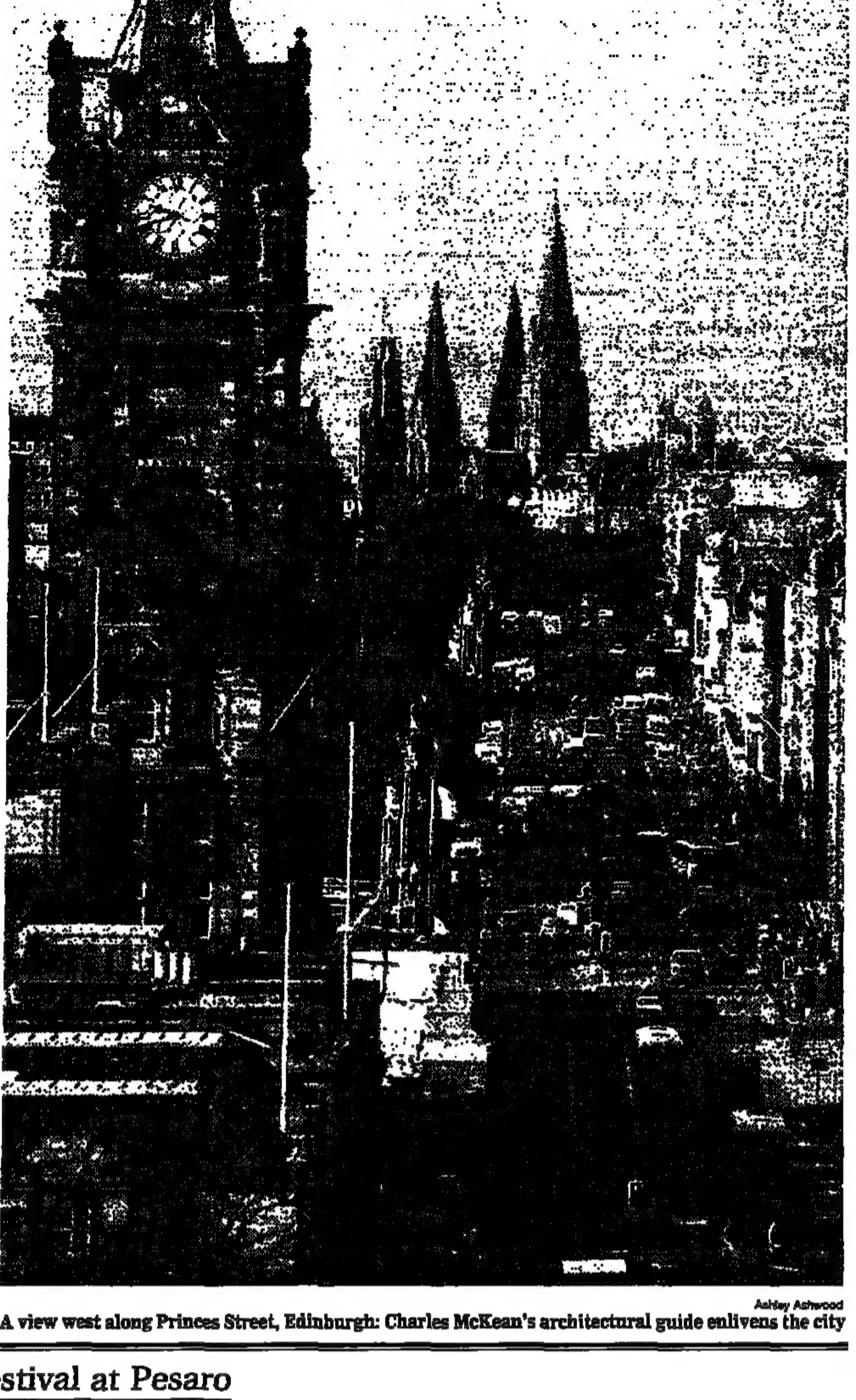
Today the villa is hard to see, as it is in the custody of the Italian Ministry of Foreign Affairs. It lies to the north-east of Rome, high on its hillside among woods and gardens. It is used in much the same way as the Medici planned – a place for high-level foreign ministry meetings and state receptions. Guy Dewez has clearly been obsessed, in the best sense, by this incomplete masterpiece and his researches are accessibly published here in a way that convincingly shows how the villa would have looked if it had been finished by Raphael.

It was a perfect example of the Renaissance wish to idealise the antique Roman villa – a place where the pleasures of civilisation could be enjoyed and demonstrated in a rural setting. The discovery and publication in this book of a letter from Raphael to his patron provides us with a first hand account of the artist's intentions.

Raphael writes of the siting of the villa to "face the most salutary winds". Part of the villa is to be a circular structure, "lit through a ring of glass windows, each of which is successively visited by the sun from the time it rises to the time it sets – a delightful place in which to hold polite conversation."

Bathing was clearly an important part of villa life and Raphael thought it important to be able to bathe in the sunlight: "in front of the window a place where one may lie in the water and be washed by one's servant without coming under his shade..."

This delightful letter is supported in the book by many romantic 19th century photographs that show the incomplete villa in an agreeable state of arcadian decay. The author's own immaculate measured drawings provide a lucid vision of how the villa might have looked if completed. This kind of informed speculation about such an important place makes for the best kind of architectural history because it stimulates the historical imagination.



Ashley Ashwood

A view west along Princes Street, Edinburgh: Charles McKean's architectural guide enlivens the city

Edinburgh International Festival

Behind the Fringe

Even in Edinburgh, they cannot control the weather, or perhaps they can. Saturday's steady drizzle gave way to low cloud and a nip in the air yesterday morning. Then suddenly the sun came out for the official opening of the 1993 Festival.

Actually the festival with a small 'f' had already started. Fringe productions have been running since early this month. In a relatively new development, there have already been previews in London. It is used to be Edinburgh first, then London.

The fringe gets bigger and bigger. Now in its 47th year, it will host a record 1,235 productions with an estimated total of over 12,000 performances at 165 different venues. In 1978 the number of shows was only 472.

It is also becoming more professional. The days when any college dramatic society could slum it for a few weeks in Edinburgh seem to be over. When the Red Shift Company is premiering the first stage version of Thomas Mann's *Death In Venice*, you are up against serious competition.

There are as yet no identifiable themes, just oddities. For example, there are four separate productions of Shakespeare's *Much Ado About Nothing* – a play which is currently going down well in London's Shaftesbury Avenue – and three of *A Midsummer Night's Dream*. The oddest show of the lot may turn out be music from a New Zealand Celtic band.

Ticket prices are up, but not substantially. Entrance to over half of this year's fringe shows will be £5 or less, and a few are free. At the official Festival, sponsorship is at a record level of £805,000. Among the leading contributors are the privatised British Gas Scotland and Scottish Power. The latter is the biggest private sponsor of the lot and is backing some of the notable musical events, such as the Verdi *Requiem* performed by the Royal Scottish National Orchestra.

The official Festival has reacted to suggestions that the main European theatre festival of the year is now in Salzburg by introducing a programme of collaboration. Peter Stein's production of *Julius Caesar*, which was shown in Salzburg last year, will reappear at the Royal Highland Exhibition Hall. Peter Sellars' production of *The Persians* by Aeschylus, which opens today, has also been seen at Salzburg.

So far, however, the main attraction is neither theatre nor music. It is an outstanding exhibition of photographs called The Waking Dream: Photography's First Century, and comes from the Gilman Paper Company Collection in New York. When a very similar exhibition was shown recently at the Metropolitan Museum of Art, I am told that the lighting was a little brighter. Edinburgh might take note of that.

Otherwise, this is the exhibition to see. Note, for instance, the wonderful pictures of Lady Ottoline Morrell in Cavorting by the Pool at Garsington, *circa* 1916 and the pictures of the American Civil War. The exhibition runs at the City Art Centre until October 2.

Malcolm Rutherford

Tonight: Lola Blau

Georg Kreisler (b. 1922), the Viennese song-writer, performer and playwright, was one of the lucky ones. He managed to leave Austria (*with* his family) in 1938, worked in Hollywood and New York, and only returned to Vienna in 1955. Though he had grown so accustomed to writing in English that he found it hard to resume his native tongue, it was back home in Vienna, that he began to enjoy the greatest success of his career; and, according to the Old Red Lion's programme note, he's still at it.

The heroine of his show, *Tonight: Lola Blau*, is a chanteuse, but otherwise her career is his. She is a Jew who manages to escape from Europe with her career intact, enjoys success in America, and then returns to Vienna. Kreisler, in telling her story, tries to highlight a few aspects of the society around her – the importance of her entertainment to the poor as well as the rich, and the anti-Semitism that survives in postwar Austria.

It is, however, alarming to find how lightweight, how passive, Lola Blau's story is. She just *happens* to escape from Austria, she just *happens* to become a star, she just *happens* to go back home. The only thing of which she expresses real need is to make it as a performer; and then to keep on making it. Sure, she passes social comment now and then; but she spends more time commenting on the vicissitudes of a stage career than on life outside the theatre. Refuge, life and limb register less strongly with her than stardom. And Kreisler conceives her role more as a tour de force, song upon song upon song upon song, than as a character.

This British premiere has the benefit of an uncannily first-rate translation by Don White, with all the songs in stylish rhymes, witty words and virtuoso metres (can the German original have been this good?), a highly accomplished performance of the central role by Esther Zchieschow (an actress from what was "East Germany" performing in English for the first time with exceptional assurance), and fluent direction by Phil Young.

But Zchieschow does no more to round out Lola than Kreisler. She rattles off this huge, wordy, song-and-dance role with impressive concentration; but her Lola is not a star (just very accomplished), not a personality (just a commentator). There is more authority in Darryl Goodwin's performance of three small roles; and he also plays in the excellent stage band. It is easy to enjoy each passing feature of this show – but its heart is hollow.

Alastair Macaulay

At the Old Red Lion, London EC1 (071) 837 7816 until September 4; at the Old Fire Station, Oxford (0865) 79494, September 13-27

Rossini Opera Festival at Pesaro

Armida and Maometto II

The programmes of the Rossini Opera Festival, though never crammed (like Spoleto, for example), can be counted on to provide welcome variety, usually with an element of surprise. The two operas featured in this year's festival – which opened this past week and continues until August 22 – represent a relative rarity, *Armida*, followed by the revival of a successful Pesaro production of some eight years ago, *Maometto II*, designed and staged by Pier Luigi Pizzi.

These productions are complemented by other events: concerts, recitals, lectures, exhibitions, and a two-week course for young artists, sponsored by the Peter Moores Foundation.

But, inevitably, attention focuses on the two operas; and this year *Armida* was awaited with special anticipation. Long neglected, the work was revived in Florence in 1952 for Maria Callas, at the height of her powers, and those unforgotten performances, in the opinion of many music historians, mark the true beginning of the Rossini renaissance, which Pesaro has so intelligently and successfully institutionalised.

Armida is one of Rossini's Naples operas, composed for the great soprano (his future wife) Isabella Colbran; and while not merely a star-vehicle, the work certainly requires the presence of a supreme interpreter in the title role. The American singer Rene Fleming is an attractive and gifted artist, but she does not possess star dimensions. In other contexts her lack of vocal sensuality can even be a merit; but in *Armida* she remained always this side of a full embodiment of the towering part, the only female character.

She was more than adequately supported, though her Rinaldo, the tenor Gregory Kunde, was more bouncy than heroic, and his occasional high notes blasted forth, true but unappealing. Of the six tenors in the cast, the most enjoyable were perhaps Jorio Zennaro and Bruce Fowler, whose charming duet opens the last act.

The orchestra and chorus from the Teatro Comunale, Bologna, were not in their best form. The winds were especially aberrant; the chorus lacked impact. Daniele Gatti conducted accurately and soberly, though without bite, occasionally indulging the singers more than advisable.

But even Callas, even Colbran would have had a hard time overcoming the handicap of the Luca Ronconi production (indeed, it is doubtful whether either of those firm-minded women would have tolerated it).

Ronconi evidently decided that, despite its definition as a *dramma*, and despite the fact that it was written for a great tragedienne, *Armida* is full of laughs.

In the first act, the stage of the Teatro Rossini was turned into a Middle Eastern desert complete with ruins and the male chorus in Beau Geste, Foreign Legion costumes. There was a good deal of clowning, indicating that the sorceress Armida's magic lay entirely in her sex-appeal. To underline the pin-up characterisation, Miss Fleming was made to wear a dress worthy of Adrian or Edith Head and a ridiculous blond ziggurat of hair that even Mae West would have thought vulgar.

The last two acts of the opera, in which Armida gives free rein to her sorcery (and Rossini to his), comprise some of the composer's most sensitive and imaginative pages. With Ronconi's tacky staging – Tasso's garden of delights was a black backdrop with the seductive houris turned into cheap whores from a Berlin brothel of the 1920s – you had to make a huge effort of will to hear the musical treasures against the anti-musical production.

Even when one likes a Ronconi production, one always has the lurking suspicion that the producer hates music. Even when one has reservations about a Pizzi production, there is never any question about his genuine, insightful feeling for opera. And his *Maometto II* inspires no reservations: it is elegantly conceived, tellingly executed, of unerring taste. Originally designed for the Teatro Rossini, it has been moved to the Palafestival (the barn-like reconverted basketball stadium) with a slight loss of intimacy but a gain in grandeur.

The work was first performed in 1820 (just three years after *Armida* and, like it, at the San Carlo in Naples), again with the great Colbran. Cecilia Gasdia has gradually gained remarkable power and authority, and now as Anna – the protagonist – she is touchingly vulnerable and, at the same time, defiantly heroic, loving and brave. In the long second act, she is almost always on stage; and in the final hour of the opera, she sings a succession of astonishing numbers, including a great extended trio and a complex finale.

Her performance is a triumph, at every moment supported by Pizzi's sensitive direction, and by the excellent performances of the other singers, notably the mezzo-soprano Gloria Scalchi (a tasteful, understated Calbo), the young Mexican tenor Ramon Vargas, whose voice is clean, clear, pleasing, and the bass Michele Pertusi, the Maometto, a young artist who made a deep impression in *Semiramide* during last year's festival.

The Radio-Sinfonieorchester of Stuttgart, conducted by Gianluigi Gelmetti with accurate attention but with little flair, is an improvement over the Bologna of the previous night, and the Prague Chamber Chorus trained by Lubomir Matl is first-rate.

Pertusi, Scalchi – and now Vargas – are to some extent Pesaro discoveries, a sign that the festival is now developing its own stable of stylistically appropriate Rossini singers. The not always idiomatic superstars of the early days have pretty much vanished from the programme; Pesaro's next job surely is to develop some new conductors and – vain hope, no doubt – a few more sensitive producers.

William Weaver

INTERNATIONAL

ARTS GUIDE

BERLIN

THEATRE

The 1993-4 season at the Schaubühne opens on Fri with Georg Kaiser's expressionist drama From Morning to Midnight, directed by Andrea Breth (890023). Richard's Cork Leg, Brendan Behan's political comedy about fascism, opens the season at Tribüne on Sat (341 2600). Freilichtbühne an der Zitadelle has open-air performances of Schiller's The Robbers from tomorrow till Sun (331 6920)

MUSIC/DANCE

The 1993-4 season at the Deutsche Oper opens with a Ring cycle (Aug 24, 28, Sep 1, 5), staged by Götz Friedrich and conducted by Jiri Kout, with a cast led by Deborah Polaski, Karan Armstrong, Robert Hale, René Kollo, Günter von Kannen and Matti Salminen (341 0249). Merce Cunningham Dance Company performs at Staatsoper unter den Linden on Aug 25, 26 and 27. Daniel Barenboim conducts August Everding's open-air production of Die Zauberflöte at Waldbühne on Aug 29 (200 4762). Barenboim also conducts the opening concerts of this year's Berlin Festival, at the Philharmonie on Aug 31 and Sep 1 (254890)

BONN

Belgian pianist André de Groote gives the third recital in his complete survey of Beethoven piano sonatas tomorrow at Beethoven-Haus, continuing every Tues till Sep 28 except Sep 1 (632500). Bonn Opera opens its 1993-4 season on Aug 28 with Prokofiev's ballet Romeo and Juliet, followed on Aug 31 by the first of five performances of the new Lyubimov/Schnittke music-theatre piece Hommage to Zhivago (773667)

GENEVA

Victoria Hall Tonight: Eric Ericson conducts Drottningholm Baroque Ensemble and Chamber Choir in Johan Helmich Roman's Swedish Mass, plus music from Drottningholm. Fri: Sergiu Commissiona conducts Orchestre de la Suisse Romande in Tchaikovsky's First Piano Concerto (Elisabeth Leonskaya) and Rimsky-Korsakov's Scheherazade (312 4353)

Hôtel de Ville Tomorrow: Eric Ericson directs his own chamber choir in music by Bach, Frank Martin, Penderecki, Lidholm and other Swedish composers. Wed: Laurent Gay conducts Orchestre de la Suisse Romande in works by Mendelssohn, Mozart and Beethoven. Thurs: Roland Pöntinen piano recital. Sun: Westra Aros Pijpare, renaissance instrumental music and dance (312 4353)

Théâtre de Verdure Wed: The Real Group vocal quintet meets Lena Willemark. Fri: Tobias Tak, Broadway music and tap dance. Aug 27: Stockholm Jazz Orchestra (386 3876)

HAMBURG

Justus Frantz brings the Proms to Hamburg on Fri with a Schleswig-Holstein Music Festival concert at the Musikhalle featuring Sinfonia Varsovia (354414)

● Brahms, Schoenberg and Egyptian-Greek composer Jani Christou (1926-70) are the featured composers in this year's Hamburg music festival (Aug 22-Sep 12). In the opening concert at the Musikhalle on Sun morning, repeated next Mon and Tues evening, Gerd Albrecht conducts Hamburg State Philharmonic Orchestra in a programme including Beethoven's Third Piano Concerto (Anatol Ugorski) and the Schoenberg arrangement of Brahms' Piano Quartet. The festival also features the St Petersburg Philharmonic, the Czech Philharmonic, the Bavarian Radio Symphony Orchestra and North German Radio Orchestra (247747)

NEW YORK

THEATRE

● *Angels in America*: the first half of Tony Kushner's epic, freewheeling play about gay life, Reagan-era politics and Mormonism. Not to be missed (Walter Kerr, 219 West 48th St, 239 6200)

● The Sisters Rosensweig: Wendy Wasserstein's play, a comedy with serious undertones, about the reunion in London of three American Jewish sisters (Ethel Barrymore, 243 West 47th St, 239 6200)

● The Perfect Ganesh: Terrence McNally's poignant play about two middle-aged American women from Connecticut making a pilgrimage through India (City Center, Stage 1, 131 West 55th St, 581 1212)

● Three Hotels: a drama by Jon Robin Baitz in which a couple discover the spiritual cost of the rise to corporate power (Circle Repertory, 99 Seventh Ave South, at West 4th St, 924 7100)

● Kiss of the Spider Woman: a Kander and Ebb musical, based on the novel by Manuel Puig, directed by Harold Prince, with a star performance from Brent Carver as the heroic homosexual window dresser (Broadhurst, 235 West 44th St, 239 6200)

● The Who's Tommy: a stage adaptation of the classic 1969 rock opera, a collaboration between its original principal author, Pete Townshend, and director Des McAnuff (St James, 246 West 44th St, 239 6200)

● She Loves Me: revival of award-winning 1963 musical by Joe Masteroff, Jerry Bock and Sheldon Harnick, about the romantic entanglements of a squabbling sales clerk and her manager (Roundabout, Broadway at 45th St, 869 8400)

MUSIC/DANCE

● The final week of this year's Mostly Mozart Festival features the Beaux Arts Trio tonight, followed by orchestral concerts tomorrow, Wed, Fri and Sat conducted by Gerard Schwarz. Soloists include Cho-Liang Lin and Cecilia Bartoli (Avery Fisher Hall 875 5030)

● New York City Opera: the next two weeks are devoted to Romberg's The Student Prince, daily except Mon. The first new production of the season is the New York premiere of Tippett's The Midsummer Marriage on Sep 9 (State Theater 870 5570)

STUTTGART

LUDWIGSBURG FESTIVAL

Tonight: Barbara Hendricks song recital. Aug 25: Neville Marriner conducts Academy of St Martin in the Fields. Aug 26: Anne Sophie Mutter. The festival runs till Sep 26 (07141-949610)

VIENNA

A week of Mozart opera performances at the Schönbrunn Schlosstheater opens on Sat. The repertory consists of Bastien und Bastienne, Der Schauspieldirektor and Le nozze di Figaro (0663-887063)

● *Klangbogen: Vienna's summer* concert series continues with a Takacs Quartet recital tonight at Schloss Schönbrunn, an operetta gala with Thomas Moser and other soloists tomorrow at Theater an der Wien, a Schubert chamber music recital with violinist Christian Altenburger and friends on Wed at Konzerthaus, an operetta concert with the Sofia State Opera Orchestra at Theater an der Wien on Thurs and a Czech Philharmonic concert conducted by Vaclav Neumann at Konzerthaus on Fri. Sunday's programme at Theater an der Wien features Shlomo Mintz as violin soloist with Vienna Chamber Orchestra in the morning, followed in the evening by Haydn's The Seasons performed by the London Classical Players and Schütz Choir conducted by Roger Norrington. Christa Ludwig is soloist in a Bernstein programme with the Schleswig Holstein Festival Orchestra next Mon at Raimundtheater. Aug 26: Academy of St Martin in the Fields (4000 8410)

● Aida, starring Aprile Millo, opens the 1993-4 season at the Staatsoper on Sep 1. Donald Runnicles conducts a cycle of Wagner's Ring on Sep 5, 8, 12 and 19, with a cast including Hildegard Behrens, Waltraud Meier, Siegfried Jerusalem, Poul Elming and Robert Hale (51444 2960)

ZURICH

Tonhalle The season begins with a series of Russian programmes focusing on music by Tchaikovsky and Prokofiev. The opening concert on Sun is played by Moscow Radio Symphony Orchestra under Vladimir Fedosseyev, with piano soloist Alexey Botvinov. The following three concerts, on Aug 25, 30 and Sep 3, are given by the Tonhalle Orchestra under Yuri Ahronovich, and feature all five Prokofiev piano concertos played by Vladimir Krainiev. Sep 6: Czech Philharmonic Orchestra (261 1600)

Opernhaus A revival of Tony Palmer's staging of La forza del destino, conducted by Eliahu Inbal, opens the season on Sep 1. The first two weeks also include Lohengrin and Il barbiere di Siviglia. The first new production is Henze's Der Prinz von Homburg on Sep 12, starring Thomas Hampson (262 0909)

ARTS GUIDE

Monday: Performing arts guide city by city.
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Sky News: West of Moscow 1130; 2230
Sunday Super Channel: West of Moscow 1830
Super Channel: Financial Times Reports 1900
Sky News: West of Moscow 0230; 0530
Sky News: Financial Times Reports 1330; 2030

The case against redistribution

MICHAEL PROWSE on AMERICA

President Bill Clinton's budget raises an age-old philosophical question: to what extent is state-mandated redistribution from the rich to the rest of society justified? The administration has imposed one of the biggest tax increases in US history (nearly $250bn over five years) yet boasts that only the top 1 per cent or so of taxpayers will face any increase in income tax. Some 80 per cent of the burden will supposedly be borne by families with incomes of $200,000 or more.

Such an extraordinary emphasis on redistribution has few historical parallels. Yet few Republicans have had the courage publicly to challenge Mr Clinton. Afraid of appearing hard-hearted or apologists for the rich, most redirected their fire to proposals that made sense, such as the planned broad tax on energy.

Since the mid-19th century, forcible redistribution has typically been justified by likening national income to a giant cake. Since we all have similar material needs, the cake ought to be divided equally. Alas, this is not practicable, but government can reduce inequality by imposing progressive taxes – taxes that rise more than proportionately with income.

Utilitarians made this sound scientific by arguing that the law of diminishing returns must apply to money. The greater a person's earnings the less valuable must be each additional dollar of income: $100 means little to a millionaire but a great deal to a beggar. The way to promote the greatest happiness of the greatest number was thus to redistribute cash from rich to poor until all incomes were equalised. Such logic eventually led to top marginal rates of income tax in excess of 90 per cent in most industrialised countries.

But, of course, the cake model is grossly misleading. The level of national output is not a given, but depends crucially on economic incentives which are blunted if incomes are equalised. This point may not seem compelling to salaried employees of large, stable organisations. In the short run changes in tax rates may not affect their hours of work or effort. But anybody engaged in risky or entrepreneurial work does care about marginal tax rates. A freelance journalist's incentive to write extra articles will be greater if the top tax rate is 30 per cent rather than 40 per cent or 60 per cent. And the trend towards corporate "downsizing" suggests that many people formerly in stable employment will face a less secure future.

More important, the cake analogy wrongly implies that society is a giant organisation run by government. In reality, it consists of a myriad of different individuals with different aptitudes pursuing different interests. Government is needed not to manage everything but to underwrite essential institutions, such as the legal system.

Material rewards depend on an unpredictable amalgam of effort, luck and tastes. Luck covers inherited wealth, innate abilities and sheer good fortune, for example selecting a profession that rises in esteem. Tastes reflect preferences for financial as opposed to non-financial rewards: many economics professors, for example, could triple their salaries by working on Wall Street, but prefer a less hectic and more thoughtful lifestyle.

If government is not regarded as an all-powerful mother wielding a cake knife, the logical fiscal system is one that leaves economic relationships unchanged: in other words taxes that are proportional to income, rather than progressive. This meets the practical requirement that taxes should be related to ability to pay, but denies the majority a right to impose higher tax rates on a minority (the wealthy) than they pay themselves. It regards taxes as a tool for financing essential public services, including a generous safety net for the poorest, but not as a means for social engineering.

Such a rule meets common sense ethical standards. A rich man eating caviar while children starve is an obscene spectacle. But what if the children are eating hamburgers and chips? Is that kind of inequality fundamentally wrong?

There are also more mundane reasons for regarding specially high taxes on the wealthy with scepticism. They are rarely paid. Mr Clinton is raising the top rate by a third to 40 per cent. This translates into large notional tax increases for the rich. A couple earning $500,000 a year faces an annual increase of about $27,000; a couple earning $1m an increase of about $80,000. Will such families hand over these sums or will they call their tax lawyers and find legal ways to reduce their liabilities?

History points to increased avoidance. The share of federal tax paid by the top ½ per cent of taxpayers (those currently on more than $220,000) has typically oscillated between 15 per cent and 20 per cent, regardless of the level of the top rate. Mr Robert Barro of Harvard University points out that this share reached a postwar record high of 22 per cent in 1988, after the top rate fell to 28 per cent, higher than in 1960 when the top rate was 91 per cent.

In other words at the peak of the "greedy" 1980s the rich were shouldering a larger share of the national tax burden than ever before. This partly reflected special factors, such as soaring asset prices, but the low tax rates also increased incentives for top earners and reduced the advantage of taking income in non-taxable forms, such as fringe benefits.

The Clinton administration will say that a 40 per cent top rate is not high by historical standards. True, but the direction of change is ominous. So is the hypocrisy of many liberal (left-leaning) Democrats who enjoy quite lavish personal lifestyles while preaching a gospel of hairshirt egalitarianism. Contrary to popular rhetoric, there are non-selfish, principled reasons for questioning the merits of a tax increase restricted to 1 per cent of the population.

Gamble to squeeze out corruption

South Korea's president is taking a risk at a time when the economy is sluggish, says John Burton

Mr Kim Young-sam has sprung the biggest surprise of his six-month presidency. Announcing last Thursday night an immediate ban on the use of aliases in financial transactions, he boldly stepped up his campaign against pervasive corruption in South Korean public life.

The requirement that owners of financial accounts disclose their identity is intended to end the bribery which has enriched those at the top, and to weaken the system of bureaucratic patronage which, the president believes, is hampering Korea's international competitiveness.

Mr Kim said the move would eliminate "the dark link between politics and business", depriving officials of the ability to hide ill-gotten money. It was also intended to stamp out tax evasion and the underground economy, which is estimated to equal 20 per cent of gross national product.

Mr Kim is taking a big gamble at a time when the economy is sluggish; he acknowledged that "in the short term, the (real-name) system is likely to cause a variety of ill effects". Liquidation of accounts held in false names sent share prices down 8 per cent by Saturday's stock market close.

There were worries that a capital shortage could cause problems for small and medium-sized businesses which have depended on unofficial lending markets largely financed by money held under false names. The move could also precipitate flight of capital abroad or into property as investors seek new tax havens, though the government promised to prevent this.

Mr Kim's broader aim is to reduce centralised management of the economy by bureaucrats and politicians, and to give greater play to market forces in order to restore the country's industrial competitiveness, which has lagged in recent years as wage costs have risen and productivity has dropped.

The president had bitterly attacked the status quo during 20 years of opposition to the military dictatorship which collapsed in 1987. When he abandoned the opposition in 1990 and became the conservative government's presidential candidate in last December's election, suspicions grew that he was really a politician of the old school. But his record in office has restored his reformist credentials.

First, he ousted the authoritarian old guard at the top of the military establishment and the intelligence agency, and imposed civilian control over these powerful organisations in an effort to complete Korea's transition to democracy.

Then came an aggressive anti-corruption campaign, which exposed bribery among senior government officials, military officers, university administrators, bank presidents and corporate executives. Top politicians and government officials have been forced to disclose their assets. The government audit agency and the tax authorities have been ordered to uncover corruption in government and business. The campaign has won Mr Kim immense popularity, with approval ratings of 80 per cent or more.

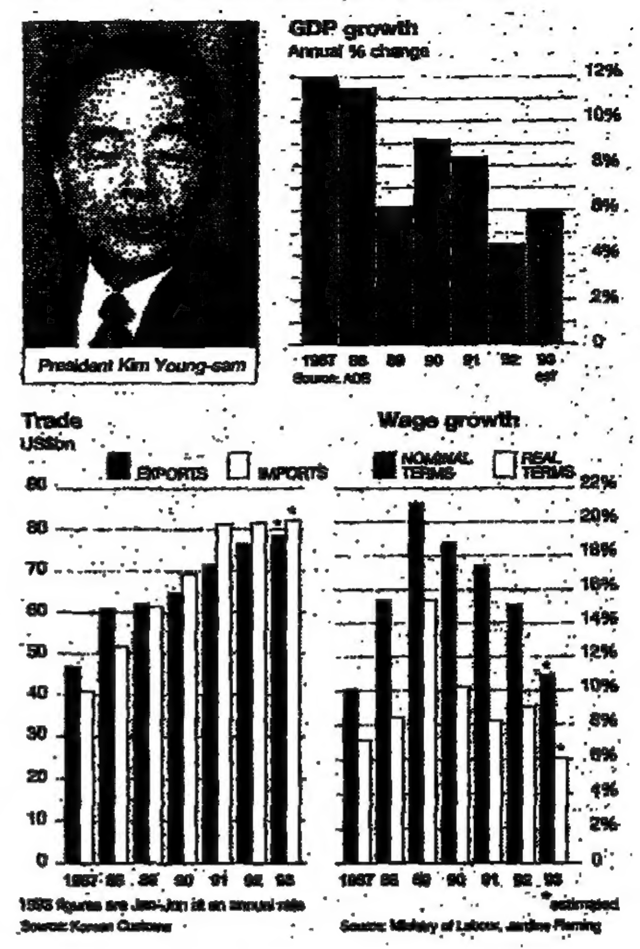
But he is not without critics. The reform programme has been blamed for disrupting the economy, which grew by 3.9 per cent during the first half of 1993 compared with the same period in 1992, slow by comparison with other Asian countries such as China. The central bank forecasts that the growth rate for the full year will be 5.7 per cent, below the government target of 6 per cent.

The Federation of Korean Industries, the leading business lobby group, has complained that uncertainties created by reform proposals on streamlining the country's big business empires, labour policy and financial liberalisation have dampened corporate investment.

Officials who process corporate proposals for new investment have delayed decisions because they fear being accused of corrupt practice.

"It is easy to forget that the system of pay-offs did allow businessmen to get things done under a regime of strict bureaucratic controls," says the head of research at a western broking company in Seoul. "Remove the only way around the regulations, without changing the actual rules, and you have accomplished nothing except to make it harder than before to function," he added.

South Korea: the economic challenge



However, Mr Sanjoy Chowdhury, chief Asia/Pacific economist for Merrill Lynch, the US broking house, says: "President Kim needs to show determination in correcting the structural faults that threatened Korea's future prosperity. His programme offers progress in that direction, although more may need to done."

The challenge facing Mr Kim is to reduce government control over the economy because the current system, once praised as a model for developing countries, is criticised as outdated for Korea's mature economy. The government no longer appears able to guide industrial development efficiently. Instead, the bureaucracy's taste for micro-management hinders restructuring of industry.

Taming the bureaucracy would improve prospects for implementing economic reform in three main areas:

- Financial liberalisation: easing state controls on banks and capital markets and reducing the government's role in credit allocation, in order to make more efficient use of capital and stop pouring money into uncompetitive companies that the government deems strategic.
- Industrial policy: the government wants to reduce the dominance of the large conglomerates, the *chaebol*, and to promote small and medium-sized companies. The aim is that the *chaebol* should concentrate on a few core industries.
- Fiscal policy: promoting economic equality by broadening the tax base, cracking down on tax cheating and closing loopholes.

Mr Ahn Chung-ni, a professor of political science at Seoul National University, says: "Kim is engaged in a race against time in achieving his political and economic reforms. He has to push as fast as possible and keep his conservative opponents off-balance."

Politically, Mr Kim appears safe for now. He has used the anti-corruption campaign to strengthen his position within the ruling Democratic Liberal party. Internal opponents, mostly linked with previous military-backed governments, have been forced to disclose fortunes gained through questionable means. The reform programme has deprived the main opposition Democratic party of a strong alternative message to attract voters.

The biggest threat to Mr Kim is a faltering economy, which could cause his popularity to fall.

There are some healthy signs: wage growth has slowed as lower inflation and worries about job security have persuaded workers to accept moderate pay increases; and exports have risen because of the depreciation of the Korean won against the Japanese yen. Most economists predict that growth will accelerate in the second half of the year.

But the slowdown in the Chinese economy – a growing market for Korean products – could undermine exports, and a rise in interest rates as a result of the introduction of the real-name system could depress investment.

There are indications that Mr Kim is prepared to tone down reforms to keep the economy going. Investigations of corruption in the banking, construction and defence industries appear to have been curtailed in an attempt to restore business confidence.

However, Mr Kim has indicated his determination to press ahead. The next few months will test his skill in balancing long-term goals against the need to revive economic growth quickly. South Korea's future depends on his success.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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The cost of Unesco

From Ms Margaret Quass.

Sir, It is gratifying to learn from the report of the foreign affairs select committee ("MPs in call to rejoin Unesco", August 4) that nothing stands in the way of Britain rejoining the United Nations Educational, Scientific and Cultural Organisation but "spending pressures".

The current assessment for UK membership is £10.6m a year, which will be reduced to £8m when the US rejoins. Modest as this is for what we get back (employment, sales of equipment, benefits of scientific research, etc), it has, since 1964, come out of our overseas aid budget, which Baroness Chalker is naturally reluctant to cut. But Unesco is not primarily an aid agency: its field of activity encompasses science, education, environment, culture and communications.

If the office of public service and science and the education, environment and national heritage departments were to share the load with the Overseas Development Administration, each would be required to pay only £2.13m a year and would be getting an excellent bargain. And Britain would once again be in a position to influence international policy on matters of great concern.

Margaret Quass,
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Attack on Russian reformers' monetary policy is misleading

From Prof Jeffrey D Sachs.

Sir, Steve Hanke and Kurt Schuler (Personal View: "How to halt Russia's rouble charade", August 13) misdirect their fire by accusing Russia's reformers of lacking a strategy to stabilise the rouble.

The reformers, led by finance minister Boric Federov, agree with Hanke and Schuler that credit policy should be rule-based and restrictive. They face profound political and institutional obstacles in implementing such a policy.

Sometimes the conservatives still hold sway, as with last month's ridiculous currency confiscation. None the less, the reformers have made progress: hyperinflation has been avoided, credit creation has slowed, and the rouble has strengthened in recent weeks.

Hanke and Schuler dismiss the reformers' efforts since they fall short of the pristine standard of a currency board, with zero domestic credit creation. Currency boards certainly have their merit, and have proved useful for some small open economies such as Hong Kong and Estonia, though they have been consistently eschewed by large countries for political and economic reasons.

A currency board is neither necessary nor sufficient for stabilisation. Hanke's favourite successes are Chile and China, neither of which has a currency board. The vast majority of stabilisations throughout history have been achieved without currency boards, while some countries with currency boards or similar arrangements (such as Liberia and Panama) have none the less succumbed to state bankruptcy.

Hanke and Schuler's call for rule-based monetary policy is most welcome, but their attack on Russia's reformers for the failure to implement a particular vision of 100 per cent monetary purity is thoroughly misleading.

Jeffrey D Sachs,
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The right tax option for Clinton

From Mr Sarvjeet Garcha and Mr Robin D Nuttall.

Sir, It is misleading to argue ("Mr Clinton's Tax Deal", August 9) that labour taxes reduce employment any more than value-added consumption taxes. A rise in either form of taxation reduces the purchasing power of labour income, and thereby has an equivalent impact upon wage demands. Consequently the detrimental effect upon employment is the same, unless you believe that workers are stupid – not being able to realise that a rise in the price of consumption goods means they can buy less of them.

To assume so would be inconsistent for a newspaper that was arguing as recently as last year that devaluation would have no lasting effects on competitiveness and employment – on the grounds that workers would simply demand higher wages to compensate for increased import prices.

Moreover, an increase in labour taxes can be focused on the rich whereas an increase in consumption taxes cannot. Thus, if the higher tax revenue in the US is to be met by the rich it is to labour taxes, not value-added taxes, that Clinton must turn.

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A unitary coal business would offer the industry more security

From Mr J D Meads.

Sir, The theme of Tony Jackson's article ("No more buried treasure", August 9) was that UK coal reserves, and the collieries which work them, have a value only to the extent that coal production is – or can be – profitable. I do not dispute that general principle.

Where Mr Jackson's analysis was deficient – apart from his underestimation of the technical difficulties and costs of mothballing collieries – is his lack of appreciation of how the UK coal industry's efficiency has advanced in recent times.

Since the national strike of the mid-1980s British Coal collieries have achieved real unit cost reductions averaging 5 per cent each year. We can and will maintain this rate of progress. The figure of £2.3bn which Mr Jackson quotes as the "subsidy" inherent in British Coal's prices to the electricity generators is open to serious dispute; the figure is, in any event, out of date, because it was calculated on the basis of British Coal's 1990-93 contracts with the generators now expired – not the current ones.

At privatisation, the new owner of British Coal is likely to find that it has more collieries capable of matching the price of imported coal, delivered to the UK customer, than it can find a market for. The crux of the problem is that the size of the UK coal market will be constrained by possible sales volume imposed largely by the excessive building of new gas-fired power stations – rather than by the relative cost of UK and imported coal.

Whether the UK coal industry will have a viable future beyond expiry of the present coal contracts in 1998 will be determined by the extent to which it is able to retain and reinvest the profitability which its efficiency ought to justify.

The key issue here is privatisation structure; as Mr Jackson acknowledges, the life of a fragmented UK coal industry is likely to be nasty, brutish and short. While British Coal will be able to compete with imports within the UK, it will not normally be able to compete in export markets. This will place enormous bargaining strength in the hands of the electricity generators when it comes to renegotiating the present coal contracts. A unitary coal business would be best placed to counter that strength, as well as being best able to spread the risks inherent in all mining operations, particularly those undertaken in UK geological conditions.

It is true, as Mr Jackson points out, that in terms of employee numbers British Coal is now but a shadow of its former self. But surely that does not justify the insouciance with which he contemplates our complete demise?

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FINANCIAL TIMES

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Monday August 16 1993

Economics in the new Japan

AFTER 40 years of Liberal Democratic party domination, Japan's economy, as well as its politics, is unlikely ever to look quite the same again. The seven-party coalition government, gratefully grasping the reins of power and with the possibility of a second election not too far ahead, has every incentive to change the rules of the economic as well as the political game.

For years, US governments have been demanding a shift in Japanese government and household behaviour from saving towards consumption, in order to reduce Japan's trade surplus. Now, independent of US pressure, the change in underlying economic and political circumstances may be about to deliver the fall in Japanese national saving and the trade surplus that the US has long desired.

What will drive a reduction in the trade deficit is the strong rally in the value of the Japanese exchange rate which has occurred over the past month. The yen has appreciated by 22 per cent against the US dollar since the beginning of the year, and by 15 per cent since the election in mid-July. For the moment, the combination of the yen appreciation and depressed demand for imports means that the dollar value of the trade surplus is still rising. But the yen rally will inevitably bite into the competitiveness of Japanese exporters. Export volume growth is already slowing.

Still, the pace at which the trade deficit falls will depend on how fast imports rise and thus on the strength of domestic demand over the coming year. The economy's recent hiccups, the political outlook and the changing power balance between the politicians and the bureaucracy all point to the possibility of a faster recovery than would otherwise have been the case.

A cut in interest rates by the Bank of Japan would be the most effective way to revive Japan's still sluggish economy. If the government is really worried, an easier monetary policy would also be the most effective way to stem the rise in the yen. But the stimulus is more likely to come from another fiscal package in the second half of this year.

The Ministry of Finance will fight hard to resist the income tax cuts that the new government appears to favour. The risk is that, despite the opposition of the bureaucrats, a weak coalition will rush to buy the support of voters through profligate fiscal policy. But even if it is still sufficiently powerful to prevail on tax cuts, the MoF will have to sanction some form of fiscal loosening.

Yet the most significant fiscal policy changes are likely to be those which encourage a fall in private, rather than government, saving. Japan's households have traditionally been big savers only partly because they wanted to save. The web of taxes and regulations that the LDP spun to attract its rural constituencies also made consumption difficult and expensive for urban dwellers. In the new world of Japanese politics, the re-drawing of constituency boundaries, the re-balancing of representation towards urban areas and the apparent decline in political support for the socialist party all make the interests and concerns of urban voters much more important than before.

The government thus has an opportunity to remove many of the distortions – particularly concerning the ownership, use and transfer of land – which have traditionally impeded consumption and contributed to the emergence of trade and financial imbalances over the past decade. By removing the disincentive to private consumption, while keeping a tight grip on fiscal policy in the medium term, the new government could also reduce the trade deficit and achieve a permanent improvement in US economic relations. US administration officials, however impatient for signs of short-term fiscal policy activism, would be wise to sit on their hands and see what develops.

In the pit

FURTHER PIT closures have been inevitable ever since the UK government gave a stay of execution to 12 of the pits on British Coal's original hit-list earlier this year. Mr Michael Heseltine, the trade and industry secretary, could not say so at the time, such was the political uproar that greeted last year's closure programme. The government may not feel able to say so now, although the news that British Coal wants to close an even larger number of pits has been leaked. But the harsh truth is that March's white paper did not provide a rescue, only a reprieve.

Coal is a dirty and expensive form of generating electricity and is therefore being inexorably driven out of the market by cheaper and cleaner gas. The white paper failed to guarantee a larger market for coal by elbowing aside other forms of energy. It merely promised subsidies to bring the price of British-mined coal down to world market levels if any extra market could be found.

But it has become abundantly clear that the main generators, National Power and PowerGen, are not willing to buy more coal for the time being. They have already stockpiled far more coal than they want, and have no immediate need of any extra supplies on top of what they have already contracted to take. Even if they sign up for more from next year, the amounts will be small.

Meanwhile, the prospects for UK coal have further deteriorated. Partly to blame is the government's decision to allow generators to burn more orimulsion, an even dirtier but cheaper form of fuel than coal. But the reprieve of the 12 pits has also played a part. It has resulted in British Coal building its own 14m tonne stockpile of unsold coal. The larger the coal mountains above ground, the more pointless it is to dig for coal underground.

There will be some who think that the government should re-explore options discarded in the white paper such as banning new gas-fired power stations, closing nuclear plants and halting imports of French electricity. But changing the energy market in such ways would impose higher electricity costs on British businesses and consumers.

The only sensible way forward is to press ahead with privatisation, in the hope that a small but efficient industry will emerge. In doing so, ministers will need to consider carefully whether British Coal should be broken into competing companies. Although this would give a spur to productivity, there may be something in the counter-argument that the generating duopoly would find it too easy to dictate terms to an excessively fragmented industry.

As far as pit closures are concerned, there is an economic case for an open announcement that another 15 or so pits will have to go. Prolonging the agony would be debilitating for those who work in the industry. By adding to the coal stockpiles, it would also undermine the industry's remaining chances of long-run viability. But politics will presumably dictate otherwise.

Insurance crunch

WHILE THE rest of the UK financial services industry has been subjected to painful structural change over the past decade, the life assurance sector has enjoyed a relatively trouble-free existence. Since the introduction of the 1986 Financial Services Act, the commissions it charges to policyholders have actually gone up, and the cost base of much of the industry has also risen against the wider financial services trend.

There are now good grounds for thinking that the 1990s will see a profits crunch in life assurance. One pointer is the recent decision by the chancellor of the exchequer to call for a regulatory regime that demands improved disclosure of commissions, and thus a more effective form of competition. Another is the decision announced last week by the Cheltenham & Gloucester Building Society to stop selling endowment mortgages and to sever its distribution link with Legal & General.

For Cheltenham & Gloucester, this represents a simultaneous retreat from financial conglomeration and from a commitment to a product with which the public is understandably disenchanted. A return to repayment and interest-only mortgages is only possible because the society has a sufficiently low cost base to do without commission fees from Legal & General on endowment policies.

For medium-sized players in the retail financial services business, the name of the game in future will be to focus on those products that will retain their appeal in an improved-disclosure environment and to do so on the basis of the lowest possible cost. The inefficient will be weeded out, though the shock will be made less severe by the fact that a large number of mutual insurers enjoy a protected form of ownership. But there will be no escape from competitive pressure in the product market itself. The more efficient practitioners will anticipate it by positioning themselves in advance.

The EC is seeking to redress the balance between worker protection and labour market flexibility, writes David Goodhart

Back to work a speedier way

When a Spanish businessman has a profitable year he does not invest in plant and equipment to expand his business and create jobs. Instead, he puts money aside to cover the cost of sacking workers when the market wanes.

Mr Felipe González, Spain's prime minister, sometimes tells this story to businessmen to illustrate how the high costs of labour protection have contributed to his country's unemployment level of 22 per cent, the highest in the European Community.

For the leader of a socialist government to suggest reducing labour protection as a key to job creation is indicative of a new openness in the EC unemployment debate – which has spread to the European Commission as it prepares a study of the link between jobs and competitiveness.

The Commission is examining whether the high cost of employment and high protection of European workers is one reason why so few people have jobs. Only 60 per cent of people of working age have jobs, compared with 75 per cent plus in the US and Japan, and half of Europe's 17m unemployed have been without work for more than one year.

While the Commission is not considering abandoning its commitment to minimum employment rights as enshrined in the social chapter, an increasing number of officials are searching for a new balance between protection and deregulation. "Relaxing the rules governing hiring and firing is not the only answer but some countries do need to loosen up a lot more," says a senior Commission official.

For the past decade, much of the EC has been experiencing growth virtually without any net increase in jobs. Even countries which have had above average growth, such as France, Italy and Ireland, have seen no significant increase in employment. Given the gradual increase in female workforce participation, the Commission estimates that merely to reduce unemployment from 11 per cent to 7 per cent requires the creation of 10m jobs before 2000.

The rise in EC unemployment since the early 1970s has as many causes as there are countries. There are also significant differences between countries in the way that unemployment is counted. In Spain only those on the unemployment register qualify for free health care, thereby inflating the jobless figure.

Nevertheless, EC countries do share several problems and could learn from each other's experiences in trying to tackle them.

Debate across Europe is now focused on four main areas of reform:

● **The high costs of firing and the restrictions on part-time and temporary work.** It may seem perverse to make it easier to fire people when the aim is to increase employment levels. But in increasingly open and competitive markets, employers, large and small, will only hire if they know they can fire when the going gets tough.

The average cost of firing someone in the EC is 22 weeks' pay (26 weeks for white-collar workers and 16 for blue-collar), and most countries require statutory consultation with unions or the state. Denmark, Ireland and the UK have fewest restrictions; Spain, Italy, Greece, Portugal and the Netherlands have the greatest; Belgium, France and Germany lie in between.

Many southern European states with their low workforce participation rates and high long-term unemployment illustrate the point that the more regulation there is to protect full-time jobs, the fewer employers will offer.

"The legacy of regulation in southern Europe stems from a time when product markets too were highly regulated, but with the liberalisation of markets the full-time employment guarantee has to be loosened too," says Mr David Grubb, a labour market expert at the Organisation for Economic Co-operation and Development.

Spain and Italy, where it can cost more than two years' pay to sack someone from a large company, are in the process of cutting that amount and making the negotiating period shorter.

There has also been some reform of the tight regulations that southern European countries have inherited governing part-time and temporary work. In France and Spain, where temporary contract work was liberalised in the 1980s, more than half the long-term unemployed found part-time work. In Spain, nearly 40 per cent of all employees are now on temporary contracts compared with an EC average of 9 per cent.

Some labour market economists argue that increasing part-time work does not increase employment overall but repackages a given number of full-time jobs into a larger number of insecure part-time or temporary ones. This argument still finds strong support in Italy, which has the least part-time and temporary work in the EC, and which until last month banned private employment agencies such as Manpower.

It may, indeed, be undesirable to allow temporary work to reach the level it has in Spain, where the government is now offering employers subsidies to convert temporary jobs into permanent ones. But the evidence from France and the Netherlands shows that part-time and temporary jobs are a useful way for employers to test out employees and that they can often lead to full-time jobs.

● **The relatively high cost of labour and, in particular, the burden of high payroll taxes.** One of the most straightforward reasons for the EC's inferior performance on job creation compared with the US and Japan is pay. The pay of EC workers increased at an average of 4 per cent a year in real terms during the 1980s while in the US and Japan it was virtually static.

The French government has just come up with a novel scheme to offer subsidies to companies where the workers take a cut in real wages to preserve jobs, but it is difficult, in the short-term, for governments to have a direct impact on wage bargaining.

They can more easily do something about the high health and social security contributions paid by employers, as well as reducing their own role in wage setting. The Italian government, for example, has recently abolished the Scala Mobile which linked pay rises to inflation, while the French minimum wage scheme which, according to many studies, has reduced youth employment, is gradually being phased out.

'Relaxing hiring and firing rules is not the only answer but some countries do need to loosen up more'

Payroll taxes on employers, which add on average 30 per cent to the EC's wage costs, are coming under scrutiny everywhere. In Denmark the payroll addition is only 3 per cent and in the UK 13 per cent, but in France, Italy and Belgium the average figure is 45 per cent and often much more for higher paid employees.

"For historical reasons some countries loaded a large part of the social security burden on employers – there was no other way to collect the revenue," says Mr Peter Burgess of UK pay analysts Incomes Data Services. But the burdens on employers are increasing, not diminishing, the spread of informal employment in many EC countries, especially Spain, Greece and Italy.

Few recession-hit European governments are in a position to carry the burden of payroll taxes themselves. But the Belgian government is trying to reduce the social security contributions of employers in export industries by introducing a national energy tax, and the French government intends to cut employers' contributions to family allowances.

As UK ministers point out, the model for many reforms is the low payroll tax, easier hire and fire, British labour market. For the low-productivity/low-wage economies of southern Europe the UK may hold lessons. Arguably, the UK has developed a highly deregulated labour market because of its historically open-market economy. Southern European countries have tended to mimic this pattern since joining the EC, and their once highly regulated labour markets are following suit. UK-style flexibility can also offset disadvantages such as poor education and training and low labour mobility, which beset the southern countries

However, the British way is less relevant to the high pay and high productivity northern European countries, according to Mr Terry Ward, an economic adviser to the European Commission. In the Netherlands and Germany, long-term employer-employee commitments at the workplace and centralised pay bargaining, plus the regulations which accompany them, may have contributed to their high value-added economies. While employment in the UK has been riding a roller-coaster – up in the late 1980s and down in the early 1990s – the three countries with the lowest unemployment – the Netherlands, west Germany, and Luxembourg – have all been severely regulated.

Getting Europe back to work requires more than just renewed economic growth

● **The low labour-intensity of the service sector.** With unemployment rising fast in most northern countries, there is still a case for targeted deregulation, especially in the service sector, which is much less labour intensive in the EC than in Japan or the US. Unless the service sector can absorb the jobs lost in manufacturing, Germany could face persistent structural unemployment, as a result of unification and competitive adjustment. Loosening the regulations governing some jobs – for instance, electricity repairmen and other domestic service providers – could lead to job creation.

"We have cut ourselves off from many of the labour-intensive service sector jobs in Europe by importing immigrants to do them. You just have to compare refuse collection in France, where it is a low status job done by immigrants, with the same job in Sweden, where it is dignified and well paid," says Mr Zygmunt Tyszkiewicz, head of Unice, the European employers' body.

● **More efficient targeting of state aid and active labour market policies.** The OECD says there can still be an important role for the state through active measures such as spending on training the unemployed, and on financial support for job-sharing.

The Dutch government has led the way on job-sharing by insisting that all new employees in the public sector are limited to a 32-hour week. The Belgian government has just agreed that workers over 55 can work half time, receiving a mixture of pay and pension, thereby releasing jobs for the unemployed.

The UK government has abandoned incentives, introduced in the early 1980s, for public sector employees to split jobs, and has been suspicious of wage subsidies, a relatively inefficient form of job creation. But as the country with the highest overtime in the EC, the UK could examine how to convert some of the overtime into new jobs without upsetting low-paid employees who need the extra money.

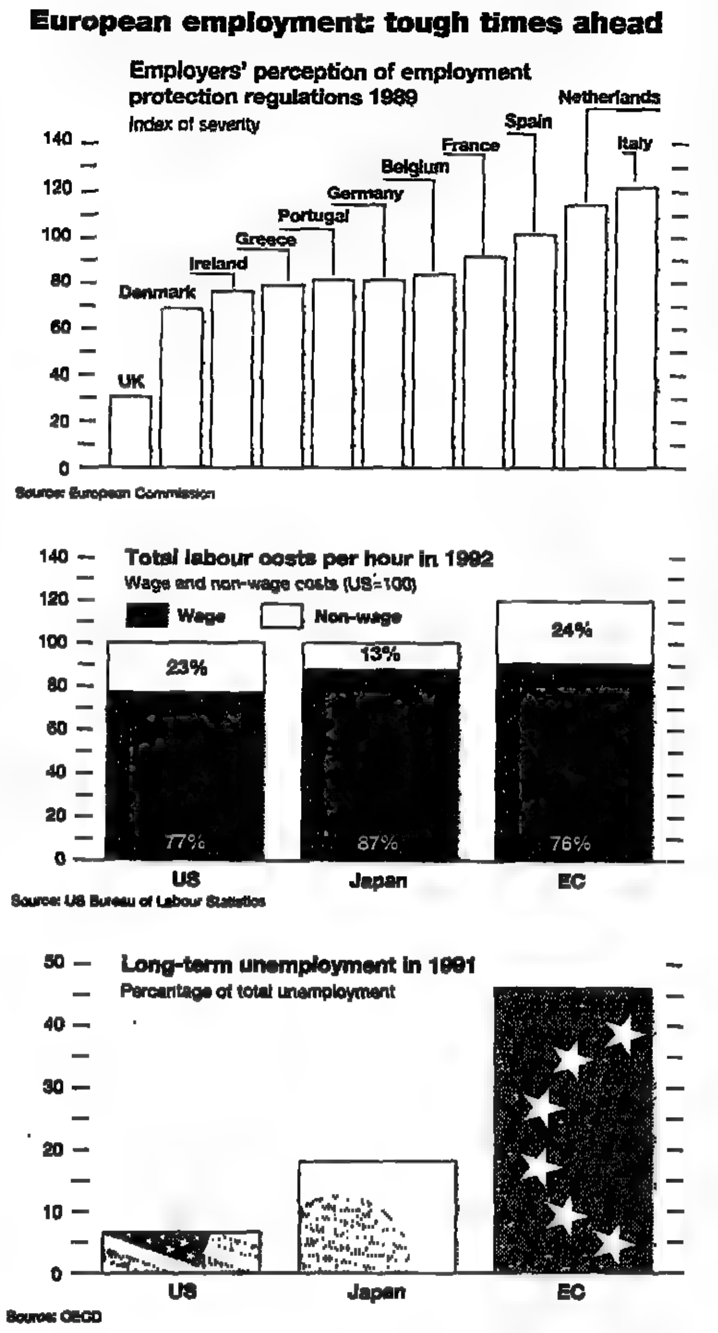
Where labour policy activism is higher, long-term unemployment tends to be lower, according to some labour market economists. For example, compulsory interviews and counselling for the long-term unemployed have had positive results in Britain and France, where nearly 30 per cent of those interviewed found either a job or a training place. Job clubs, self-help clubs for the unemployed, have also been a successful British innovation now being copied in Portugal.

An examination of different responses to long-term unemployment in the EC, under the Ergo programme, concluded recently that the creation of businesses and the encouragement of self-employment was more worthwhile than "make-work" schemes – which may come as a surprise to some member states. It also found that counselling measures were the most cost-effective means of getting people back to work.

Counselling is particularly effective in those EC countries where unemployment benefits do not run out after a period of time. Such open-ended benefits, unless carefully designed, can throw up a web of disincentives to work, especially in part-time and temporary jobs. Some people can be dissuaded from taking jobs by the high initial cost of giving up their benefits, and they need "back to work" grants to bridge the gap, as in Japan.

Getting Europe back to work requires more than renewed economic growth. No EC government wants to emulate the harsher aspects of the US labour market, where two-thirds of employed workers are subject to instant dismissal and far fewer unemployed workers than in Europe qualify for benefits. But all the signs are that the trend of the 1980s towards deregulation is picking up speed. Governments as well as Brussels have grasped the importance of labour market reform and are groping towards a new balance between employment protection and flexibility.

European employment: tough times ahead



OBSERVER

Time for a change

■ Ever felt that your curriculum vitae needed a little extra something? Admit it. Despite all the titles, years of study at the highest seats of learning, and truly eclectic pastimes, haven't you ever dreamed of topping off your resumé with an MSc in Managing Change?

Thankfully, help is at hand. Sheffield Business School, in partnership with the London-based Centre for the Study of Change, has scored a world first. Senior managers and consultants can now obtain a master's degree in what TV troubleshooter Sir John Harvey-Jones calls the "most desirable management skill for the 1990s".

"When it was an occasional problem, change seemed much simpler," says Dr Ian – I/C change – Cunningham. "Today, as wave upon wave of change crashes through nations and organisations, it no longer looks so simple." Glad to have you aboard, doctor.

Now down to basics. It's a part-time course, takes two years, and involves the self-managed learning approach – not to be confused with the DIY approach. To begin, participants will need their own "Learning Contract". But don't be put off by the jargon. It is simpler than it sounds. Just answer the following five questions: Where have I been? Where am I now? Where do I want to go? How will I get there? How will I know if I have arrived?

Answer at least three of these questions correctly, promise to pay £14,000, and Observer feels sure that you are capable of winning a place on a course that promises to equip you with "one of the rarest and most difficult skills to learn".

Approved

■ Where does Sir James Birrell, who steps down as chief executive of the Halifax Building Society this week, invest his own retirement money? Quizzed on the question in the latest Mortgage Finance Gazette, Sir James lists the usual array of Halifax products before letting slip that he has a portfolio of ordinary shares - some good and some bad. "One of my best is Abbey National..."

Sound of silence

■ The break up of Yugoslavia has posed a tricky problem for the organisers of the world athletics championships in Stuttgart. The International Amateur Athletics Federation has decided that athletes from the Yugoslav athletic federation will be allowed to compete as independents wearing a white outfit with no national colours. In the unlikely event that any of them wins a medal, the IAAF will play the European Community's theme tune, Beethoven's Ode to Joy.

A one minute silence might be be more appropriate.

'I'd hate to be suddenly made redundant while I was soaring on a tide of optimism'

Marking time

■ Now that Business Week magazine has proclaimed George Soros as the "most powerful and successful investor in the world", it's hard to believe that he will ever have to wait again for an appointment.

However, Observer hears that in the past the man who moves markets and terrifies central bankers has occasionally had to wait his turn. Soros, who has donated a lot of money to fund higher education in eastern Europe, has been making several trips to Oxford to talk to academics and often arrives before student tutorials are finished.

But rather than use the time to check on the fate of the latest currency in his sights, or pen another Op-Ed piece, the world's greatest financier has taken to sitting in the porter's lodge of Holywell Manor, Balliol's graduate centre, and watching cricket. Just goes to show that it never pays to under-estimate the college porter.

Unlucky

■ Talk about hard luck tales. There is a real humdinger in the latest issue of The Antique Collector where the new Earl Spencer, Princess Diana's brother, outlines "the worst year of my life."

The Earl inherited a family business which was losing £450,000 a year when he took over. "Every time I wake up in a cold sweat from the worry of it all, I just think how empty my life would be without the challenge of fighting for the survival of this lumbering endangered species." Apparently, he is talking about the family pile – 13,000 acres plus stately home – rather than the family itself.

But it is not all the fault of the Earl's late father or his spendthrift stepmother, Raine. "My family have always sold the wrong thing" says the 29-year-old Earl. His grandfather flogged a Holbein to Baron Thyssen for £10,000 and now it's worth £55m. Worse still a great-great uncle sold three villages in the 1830's. Unfortunately, they happened to be Clapham, Wandsworth and Wimbledon.

Over zealous

■ No wonder President Bill Clinton is taking so long filling the empty posts in his administration. Shirley Chater, President Clinton's candidate to head the Social Security Administration, seems to be running into some difficulty after admitting that she failed to pay social security taxes for her part-time teenage babysitters between 1969 and 1975.

It might sound a terrible crime to non-Americans but on the scale of US tax evasion it is not worth mentioning. Indeed, if this litmus test was used to bar all candidates for high office then the US Government might have to consider importing candidates from abroad.

Spot on

■ In a bid to catch the mood of the occasion, the European Society for Opinion and Market Research is holding its next seminar on "Consumer Research in the Fragrance Business" in Cologne.

FINANCIAL TIMES
Monday August 16 1993

Wounded Bosnians airlifted out amid attacks on west's motives

By Gillian Tett in London and Laura Silber in Geneva

A GROUP of seriously wounded Bosnians were airlifted out of Sarajevo yesterday amid claims that the operation had become a publicity exercise by western governments.

Thirty-nine injured adults and children were flown for urgent treatment in Britain and Sweden, and a further five are expected to be evacuated by the Irish government in the next few days.

However, Dr Patrick Peillod, the head of the United Nations medical evacuation committee, criticised the motives behind the airlifts, saying sick and wounded children were being paraded "like animals in a zoo".

There has also been widespread criticism of insufficient co-ordination between the different aid groups.

The British government said it would be "reassessing" the situation before it pressed ahead with its offer made last week to send a second aircraft for evacuation.

Meanwhile, in Geneva, Mr Radovan Karadzic, the Bosnian Serb leader, said the recent Serb withdrawal from strategic mountains around Sarajevo meant that the city was "no longer under siege".

Peace talks between the three warring sides are due to resume in Geneva today, after the Bosnian delegation agreed to end its two-week long boycott of the talks, initially called to protest against the Serb siege of Sarajevo.

Although the Bosnian delegation now appears to accept the concept of an ethnic partition for Bosnia, Western hopes for a speedy settlement seem likely to be dashed, with the future of Sarajevo and the precise boundaries of the future mini-states still strongly disputed.

UN protection forces in Zagreb, the Croatian capital, said that although the situation around Sarajevo was now fairly quiet, fighting continued between Moslems and Croats in central Bosnia, blocking aid convoys in that region.

Meanwhile officials representing the United Nations High Commission for Refugees in the former Yugoslavia said that although nearly 300 beds had been offered for injured Bosnians by European and Moslem governments, as well as private US groups, they had only been wanting to evacuate some 25 victims a week from Sarajevo.

UN officials stressed that more aid was needed across the region, and reiterated that with its funding due to run out in October, the UNHCR was critically short of money.

As the diplomatic wrangling over the humanitarian efforts continued, the British government sought to downplay allegations that it had hoped to focus on child victims from Sarajevo, following the emotional press coverage of Irma Hadzimuratovic, a five-year-old mortar victim who was evacuated by the British government last week.

Porsche starts counting the cost of arrogance

UK importer goes back to its roots, writes John Griffiths

PORSCHE is seeking to re-establish customer loyalty in the UK after admitting it has paid a high price for past arrogance.

In 1987, a record 3,700 of the German-built luxury sports cars found their way to UK customers. By last year sales had fallen to just 945.

The importer, based in Reading, west of London, has completed a restructuring of its operations and is now going back to its roots – appealing to sports car enthusiasts rather than its 1980s reputation as a "status symbol".

Mr Kevin Gaskell, managing director of Porsche Cars Great Britain – the manufacturer's UK sales subsidiary – encountered the perception of arrogance in market research about the famous marque. "In concluding that we were perceived as arrogant it was only telling us what we already knew," he says. "There was a time when not only were we not listening to what the world was telling us; we weren't even listening to ourselves."

The image portrayed in the research was that Porsche and its 28-strong dealer network were aloof purveyors of high-priced cars, rapidly losing their competitive edge against a growing number of rivals, particularly from Japan.

The headquarters of Porsche Cars (GB) reflects the status of the company. The £13m building, clad in black smoked glass, was erected on the outskirts of Reading in the mid-1980s and was designed to be capable of distributing 6,000 new Porsches a year. Its capacity as an import centre has never been much more than half used. Nor does Porsche expect to see 6,000 sales a year in the UK in the near future.

It has therefore turned part of its headquarters into a dealership and has set up a new division, Porsche Special Products (PSP). A major function of PSP is to provide a renovation and maintenance service for the 36,000-strong UK Porsche population.

Staffing levels have been cut dramatically. The headquarters employs 90 people on all activities, compared with more than 200 in 1988. In terms of the import business, the financial break-even has been cut from annual sales of 2,200 annual cars two years ago to just 700.

The company is also launching initiatives to make parts and service costs more competitive to wrest back business lost to non-franchised Porsche outlets.

Mr Gaskell says there are 16 such outlets in Greater London alone. "It's up to us to find that cross-over point between quality and cost where that business will come back to us".

Porsche Cars GB is currently on course to lift sales to more than 1,000 this year. Sales of the 911 model, heavily updated in its 30th year, are up sharply. The next really substantial sales boost, however, is likely to come with the 986, an all-new car based on the Boxster concept car which Porsche unveiled late last year and to be launched in the mid-1990s.

According to Mr Gaskell, the company could have sold 2,000 cars in the UK last year, but that would have meant discounting and potentially damaging resale values.

Little could be more indicative of the new humility at Porsche than one of the first cars waiting for renovation by the Special Products division.

It is a decrepit, badly rusted 911 Targa. "Its owner has given us a budget of £4,000 to restore it. We welcome the work and will turn it back into something he can be proud of."

British minister seeks world social charter

By David Goodhart, Labour Editor, in London

MR DAVID HUNT, Britain's employment secretary, has surprised European Commission officials by calling for a world social charter of minimum employment rights to supersede the European Community's own social charter.

Mr Hunt, who proposed the idea privately to Mr Padraig Flynn, the EC social affairs commissioner, said it was "ludicrous" for EC countries to impose extra non-wage labour costs on themselves through the EC social charter when they had to compete in world markets.

But he also believed there was a case for some basic level of employment protection which all countries, including developing countries, would have to observe.

"Instead of imposing costs on ourselves we would be better served pursuing the idea of a world social charter.

"I would like to see such a charter concentrating particularly on basic health and safety standards," he said.

Although improved world labour regulation is under scrutiny in several countries which fear the competitive threat from low-wage South East Asian countries, the idea of a world social charter is unlikely to find favour with all Mr Hunt's cabinet colleagues.

The idea, which is sometimes proposed in the form of a social clause in the General Agreement on Tariffs and Trade, has been quite widely discussed in France, and even the US, but is usually pushed hardest by international trade union bodies.

World Bank cuts back disclosure plans

Continued from Page 1

both environmentalists and campaigners for democracy in areas like Africa, where governments rarely disclose much information to their own citizens.

While environmentalists criticised the case by case disclosure policy, the new policy would, nevertheless, expand the categories of document made public by the World Bank.

Staff appraisal reports on individual projects, reviews of the overall economy or of specific sectors in member countries, and summaries of audits by the Bank's operations evaluation department would be made available.

However, a new "project information document", intended to give advance information on projects being considered for Bank financing, is viewed by environmentalist groups as inadequate.

One sample project information document attached to the policy paper, fails even to say where the project it describes is sited.

Environmentalist groups are particularly critical of a proposal that the panel's findings should only be made public after the Bank board had decided on them – too late for the plaintiff to have much influence on the decision.

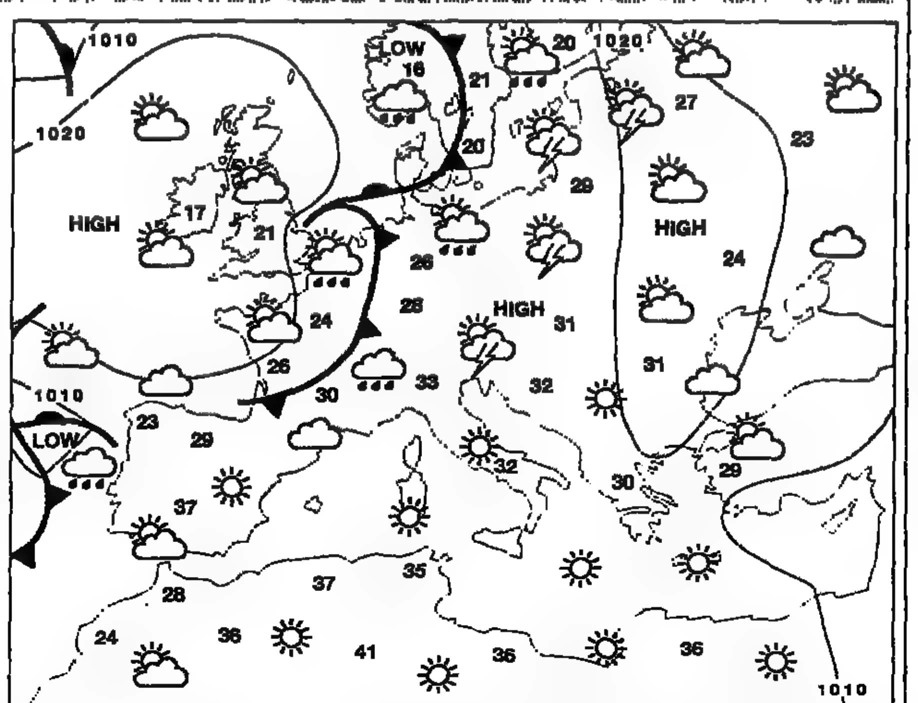
However, it seems likely that executive directors will agree to the disclosure policy at a board meeting on August 26.

Europe today

Thunder showers and rain bands that were situated during the weekend in France, England and the Benelux countries will gradually move into central and north-east Europe. The Baltic states along with central and southern Sweden will have a risk of thunder storms. At the same time, a high pressure area will build over the British Isles causing calm and mainly dry conditions over Ireland and most of Scotland and England. But a small disturbance ahead of the high will cause rather cloudy skies around the North Sea, with light rain or drizzle locally. An active depression, slowly approaching Portugal from the west, will cause increasing clouds with perhaps some showers at the end of the day.

Five-day forecast

As a high over Britain progresses further east, fair and mainly dry weather can be expected in most parts of western Europe during the next few days, along with slowly rising temperatures in most places. Scandinavia will however continue to be unsettled. In Spain and Portugal, the arrival of an Atlantic depression may cause thunder showers. It will stay hot, however, in south-east Spain. The south of France will benefit as well from higher temperatures at the end of the week.



Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum	Belfast	fair	16	Caracas	fair	31
		Celsius	Belgrade	sun	32	Chicago	thund	30
Abu Dhabi	fair	41	Berlin	shower	26	Cologne	shower	24
Accra	shower	29	Bermuda	fair	31	D' Salaam	shower	28
Algiers	sun	35	Bogota	shower	18	Dakar	fair	30
Amsterdam	shower	20	Bombay	rain	31	Dallas	sun	38
Athens	sun	31	Bordeaux	fair	31	Darwin	fair	32
B. Aires	cloudy	15	Brussels	fair	21	Delhi	shower	37
B.ham	cloudy	19	Budapest	sun	31	Dubai	fair	41
Bangkok	rain	33	C.hagen	shower	20	Dublin	fair	17
Barcelona	sun	28	Cairo	sun	36	Dubrovnik	sun	31
Beijing	shower	30	Cape Town	sun	22	Edinburgh	rain	16

Faro	fair	29	Majorca	sun	33	Reykjavik	rain	11
Frankfurt	fair	28	Malta	sun	32	Rio	shower	25
Geneva	fair	28	Manchester	fair	18	Riyadh	sun	42
Glasgow	rain	16	Manila	cloudy	31	Rome	sun	29
Hamburg	cloudy	21	Melbourne	shower	9	S. Frsco	sun	20
Helsinki	fair	21	Mexico City	shower	21	Seoul	shower	25
Hong Kong	shower	30	Miami	thund	34	Singapore	shower	31
Honolulu	fair	31	Milan	sun	32	Stockholm	thund	21
Isle of Man	fair	17	Montreal	drzzl	24	Strasbourg	shower	28
Istanbul	fair	28	Moscow	cloudy	19	Sydney	shower	17
Jersey	sun	22	Munich	fair	27	Tel Aviv	sun	33
Karachi	fair	31	Nairobi	shower	21	Tokyo	thund	26
Kuwait	sun	45	Naples	sun	32	Toronto	shower	24
L. Angeles	sun	23	Nassau	fair	32	Tunis	sun	35
La Paz	cloudy	17	New York	cloudy	29	Vancouver	cloudy	22
Las Palmas	fair	26	Nice	sun	28	Venice	sun	31
Lisbon	fair	28	Nicosia	sun	36	Vienna	fair	29
London	rain	21	Oslo	rain	18	Warsaw	fair	30
Lux bourg	fair	24	Paris	fair	24	Washington	fair	32
Lyon	fair	30	Perth	fair	17	Wellington	fair	12
Madeira	fair	26	Prague	shower	26	Winnipeg	sun	26
Madrid	sun	35	Rangoon	rain	30	Zurich	fair	27

THE LEX COLUMN

The price of failure

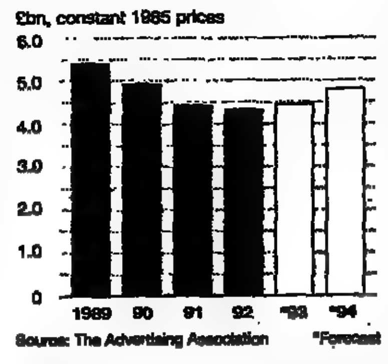
Having spent a vast quantity of the Bundesbank's D-Marks in its futile attempt to defend the franc, the French government now faces the embarrassment of repaying the loan. Although the Germans are unlikely to send in the bailiffs, the French are theoretically obliged to return the money within three months. The difficulty could be partly eased by rolling over some of the loan for a further 90 days. If the franc appears reasonably stable, the Bank of France might gingerly sell francs on the currency markets to recoup the D-Marks, as it successfully did after earlier crises.

But the sheer scale of the FFr180bn foreign currency reserve deficit suggests more urgent action will be required. The deficit leaves the French largely denuded should the franc again come under attack. Capital controls may provide one means of defence, although this is hardly in keeping with the single European market. In any event the French government will want to raise fresh finance for future contingencies as well as repay the D-Marks it owes.

Given the size of the funding task, the French will have to raise the money through a variety of channels. The Bank of France may reluctantly sell some gold reserves. The government may borrow some money in the syndicated loan market, but this is relatively expensive. It may also issue domestic OAT bonds and swap them into D-Marks, yet the franc swaps market has limited liquidity. In the end the French may be forced to the cheapest course. Foreign currency bonds are the most sensible way to borrow, however much the government dislikes them.

UK advertising expenditure

£bn, constant 1985 prices



Source: The Advertising Association *Forecast

UK insurance

The rising equity market has contributed more to the recapitalisation of the UK insurance industry than the stream of rights calls and preference share issues. Most composite insurers maintain equity portfolios at least equal to shareholders' funds. For Sun Alliance, the most geared to equities, the 25 per cent rise in the stock market since sterling's devaluation may have added £500m to its capital base. The exception is Royal, which holds equities equal only to around half shareholders' funds.

So far Royal's shares have not been held back by its gilts and other fixed interest investments. It roundly outperformed the sector over the last 12 months as underwriting conditions have turned. With the UK underwriting recovery now fully in the price, though, differences of investment mix are more likely to tell. The question for shareholders and management alike is whether the likely outperformance of equities over the long term is worth the additional risk.

Another bull equity market in the 1990s would most likely leave UK insurers overcapitalised. Very high solvency ratios are a hurdle to making a decent return on capital, however good the investment returns. Insurance companies riding a rising equity market also feel little pressure to make decent underwriting profits. That partly explains the extent of insurance losses during the last three years. Direct Line, the darling of the insurance industry, both makes an underwriting profit and holds its assets wholly in bonds and cash.

Advertising

The marketing strategies being pursued by branded goods companies may not be a mortal blow for hard-pressed advertising agencies. Mr Charles Scott, chief executive of Saatchi & Saatchi, acknowledged last week that discounting of branded goods would suck money out of advertising budgets in the short term. But pioneers of everyday low pricing such as Procter & Gamble have pledged that advertising support for their brands will not be reduced overall. The remaining price differential of branded goods over generic products would otherwise be impossible to defend.

Yet the outlook for advertising agencies is far from cloudless. While advertising expenditure should grow as the industrial economies turn, the stratospheric rate of growth seen in the 1980s – with advertising growing steadily as a proportion of gross domestic product – is improbable.

The wild card is the question of brand valuations in company accounts. A recent study commissioned by the UK Accounting Standards Board supported balance sheet valuation of acquired brands, subject to certain financial tests. If that approach is carried through into an accounting standard, consumer goods companies will have a financial incentive to maintain advertising investment in their brands. Agencies would doubtless applaud such an approach. Still, having written off £600m of goodwill to reflect a permanent diminution in value of acquired agency brands, Saatchi & Saatchi will also appreciate the pitfalls.

British Gas

The recent surge in British Gas's shares looks a little odd since the Monopolies and Mergers Commission's verdict on the company's fate is due to be unveiled tomorrow. Admittedly, that doom is not binding – the Department of Trade and Industry has yet to pronounce. In a market powered by hopes of lower interest rates and the search for yield Gas's dividend looks attractive. Still, the risks will not be clear until the report is published, and the MMC has a reputation for surprises.

The main areas of concern are the structure of the industry, the rate of return British Gas is allowed to earn on its pipeline, and the abolition of the company's monopoly of the domestic market. A full break-up of the company looks improbable, but the MMC may insist that its operations are split into separate subsidiary companies, increasing overhead costs. Gas's pipeline returns seem unlikely to be increased substantially, but a higher rate may be allowed on new investment. Abolition of the domestic monopoly is definitely on the cards, though that may be phased over a period of years.

None of which will do much to improve the company's financial prospects. Non-regulated exploration and production activities will start to generate substantial cash by the mid-1990s, yet much of that will be needed to replace and expand reserves. Since British Gas wants its dividend to be covered twice, the attractive yield is unlikely to be fattened by hefty dividend rises. Those who have bought ahead of the news will have to hope they have read the MMC correctly.

FINANCIAL TIMES

COMPANIES & MARKETS

Monday August 16 1993

INSIDE

Nadir was offered chance to control RHM

Andrew Jack reports on an acquisition plan just come to light that would have made Polly Peck 'the bakers to Europe'

SOME OF the best-known brands on Britain's supermarket shelves might have passed to Mr Asil Nadir if an audacious plan for control of one of the country's largest food producers had not foundered three years ago.

It emerged yesterday that Mr Asil Nadir, the fugitive businessman who earlier this year illegally fled bail for northern Cyprus facing charges of theft and false accounting, was offered the chance to take a substantial stake in Ranks Hovis McDougall (RHM), the milling and baking group, in spring 1990.

RHM, which was bought by the conglomerate Tomkins last December, produces goods such as Mr Kipling cakes, Mother's Pride bread, Bisto gravy and Rombouts coffee.

Sir James Goldsmith, the international financier, offered his 29.9 per cent stake in the group to Mr Nadir on behalf of Polly Peck International, which entered administration in October 1990. Polly Peck's acquisitive growth in the 1980s brought it brands such as Del Monte, the fresh fruit business, and Sansui, the Tokyo-quoted electronics company.

Sir James visited Mr Nadir with Mr Jim Slater, the one-time stock market guru and entrepreneur. The two men offered Mr Nadir the stake in RHM which was then owned by Sunningdale Holdings, a vehicle controlled by Sir James, Mr Jacob Rothschild and Mr Kerry Packer, the Australian media entrepreneur.

The RHM shares were originally bought for 400p each in May 1989 after a takeover bid launched by Goodman Fielder Wattie, the Australian food group, lapsed the previous year following a referral to the Monopolies and Mergers Commission. The stake was offered to Lord Hanson, but ultimately sold at a loss at the end of January 1991 at just 300p a share.

The shares would have offered the chance for a takeover bid and given considerable influence with the board to Mr Nadir. It would have directly given him the power to block extraordinary resolutions, which require the support of 75 per cent of shareholders.

Senior executives of Polly Peck at the time say that Mr Nadir was very excited by the RHM offer and particularly the prospect of acquiring the company's brands.

According to one, he said: "We will be the bakers to Europe." He said Sir James and Mr Slater had told him he was the "only person in England" who could take over RHM.

Credit Suisse First Boston was commissioned to consider the acquisition. If it had gone ahead, the plan was to sell off the branded businesses and retain the baking operations. But the offer was ultimately rejected because of difficulties in raising the finance, the complexity of RHM, insufficient management capacity at Polly Peck and Mr Nadir's realisation that he would have had to make a hostile bid.

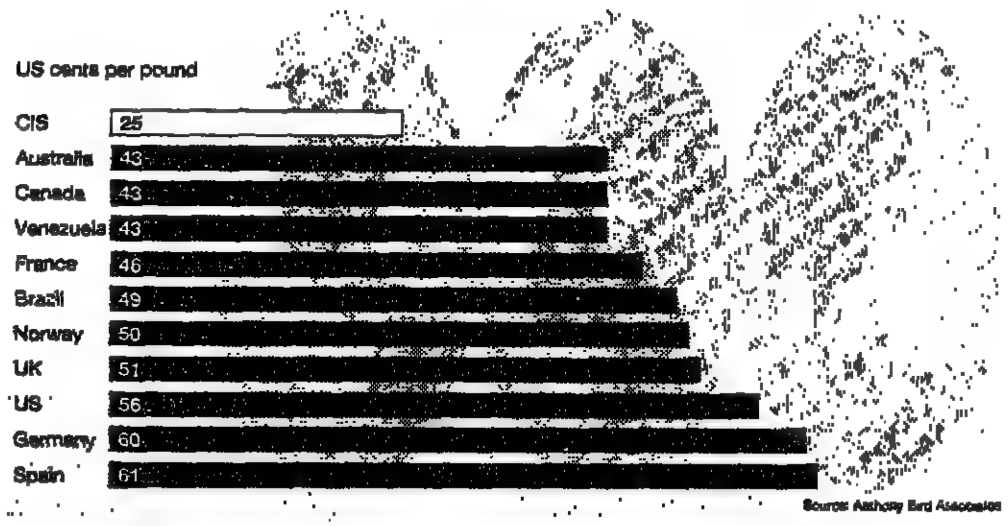
During summer 1990, Polly Peck also came close to offering £250m ($372.5m) for International Leisure Group, the owner of Air Europe and Intasun which collapsed in March 1991. Polly Peck was approached by Goldman Sachs, the US investment bank, which had been asked by ILG to find a partner as its financial position worsened. It also approached Lonrho, the international trading group.

According to former directors, Polly Peck rejected the ILG offer because of substantial potential liabilities on leased aircraft and diffculties in raising the money. Mr Nadir was interested in the airline for flying tourists to his hotels in the near East and to combine with Noble Air, the airline then controlled by his sister.

Kenneth Gooding reports on the response of continental producers to rising exports from the CIS

Aluminium fence goes up around Europe

Aluminium production costs



Source: Anthony Bird Associates

Like many Russians, Mr Igor Prokopov can become emotional at times. And he gets noticeably cross when anyone suggests that the Commonwealth of Independent States is entirely responsible for bringing the western aluminium industry to its knees.

There has been an unprecedented surge in CIS aluminium exports which European producers say has depressed the price to a point where their industry is on the verge of collapse.

But Mr Prokopov, president of Concern Aluminiy, holding company for the CIS industry, points out that aluminium is a world commodity and there is only one market – a world market. The CIS is an important member of that market and the rest of the industry will have to adjust to that.

Japan once was a big aluminium producer, he recalls, but now makes virtually none. The Japanese were forced out in the early 1980s because their costs were too high, particularly their energy costs. Nobody blamed the CIS producers for that, so why blame them now? Mr Prokopov says most CIS smelters use low-cost hydro-electric power, as do smelters in Latin America and Canada. It is not their fault if smelters in central Europe have to buy relatively high-cost energy, making them high-cost producers.

Mr Prokopov becomes particularly agitated at suggestions that the CIS is dumping aluminium in the west. How can this be, he asks, when all official CIS contracts are linked to the world price set by the London Metal Exchange and most of the export is handled by reputable western trading companies?

His spirited defence cuts little ice with the European Commission which last week imposed restrictions on CIS aluminium imports, insisting that only 60,000 tonnes may be imported between now and the end of November – about half of what might otherwise have been expected.

Mr Prokopov says this makes no sense. Putting a fence between Europe and the CIS will not work – the metal is a global commodity that will simply enter the world market elsewhere. The restrictions make even less political sense when the world's industrialised countries are dismantling trade barriers and attempting to help the CIS transform to a market economy.

Western analysts suggest that the CIS produced about 2.7m tonnes of aluminium last year, down from 2.9m tonnes in 1991. It exported about 1m tonnes, of which nearly 600,000 tonnes went to other parts of Europe. At the end of the 1980s the former Soviet Union was exporting only 200,000 tonnes, of which 124,000 tonnes went to western Europe.

Even though chaotic conditions in the CIS cut demand for aluminium from 2.6m to 1.8m tonnes last year, there were still shortages of the metal. The fish canning industries in Russia and the Ukraine complain that there is not enough available. Among other things, the metal is also used for canning caviar, one of the few Russian products that has instant appeal in overseas markets.

Aluminium has that same appeal. Russia and some other parts of the CIS can produce top-quality aluminium – much of it used to go into military and aerospace equipment – which is readily convertible into dollars.

Smelter managers prefer to export to earn dollars instead of being paid by domestic customers in rapidly depreciating roubles. Their smelters are not just making metal – they provide the sole support for whole communities, including schools and hospitals. Dollars earned provide food, medicine, school books, not just raw materials and smelter equipment.

Concern Aluminiy estimates that $250m to $300m a year raised from aluminium exports is spent by the industry in the EC.

Nevertheless, the Commission has responded to pleas for protection from European producers who claim that CIS imports have depressed aluminium prices to their lowest ever level in real terms and to a point where some smelters are not earning enough to cover cash production costs.

The European industry has been forced to make expensive production cuts – 80 per cent of the 1.1m tonnes of western capacity cut so far is in Europe.

Alcoa discovered that conditions were so poor in some Russian smelters that a worker's average life expectancy was only 47 years

Part of the Commission's explanation for its action was: "Aluminium produced in CIS states enjoys the huge advantage of artificially low energy prices and environmental standards that are far less strict than those in western countries."

Nobody disputes that environmental standards in CIS smelters are appalling. If Russia's own regulations were imposed, all its smelters would close down.

A team from the Aluminum Company of America (Alcoa) discovered that conditions were so poor in some Russian smelters that a worker's average life expectancy was only 47 years.

The European industry wonders if it makes any sense to close relatively modern smelters in the west to allow the CIS monsters to continue operating? As for costs, the Russians claim they produce aluminium at about $500 a tonne. But energy costs are heavily subsidised and labour rates range from one US cent to two cents a pound – less than those in most developing countries.

Industry consultant Mr Anthony Bird estimates that, aided by these "astonishingly low" input prices, CIS smelters in mid-1992 were producing aluminium for about 25 US cents a lb – well below the 53.6 cents average at smelters in the rest of the world. But by the year 2000 only one or two smelters would still be competitive if the CIS continued to move towards a market economy.

The western industry says it cannot wait that long for relief. However, it is split about what action should be taken.

Until last week US producers were not asking for protection – but said the EC action might force them to do so.

Mr Paul O'Neill, Alcoa's chairman, in June tried to head off restrictions by the EC: he announced that Alcoa, even though it had some of the world's lowest-cost smelters, would cut its output by 25 per cent at the cost of 750 jobs.

He also called on governments to find "a mechanism to deal with the economic consequences of the dissolution of the former Soviet Union."

The EC, too, is seeking a multilateral solution. It is willing to assist in the modernisation of CIS smelters and wants to encourage the regeneration of CIS domestic demand for aluminium.

The western industry has already taken some tentative steps in this direction. But, by imposing restrictions, the Commission obviously hopes to grab the attention of Mr Boris Yeltsin, Russia's president, so that, in spite of all his other problems, he will move those besetting the aluminium industry nearer the top of his agenda.

A government dilemma over labour costs

Economics Notebook
By David Goodhart

In something as complex as the British government machine it is impossible to avoid some conflict between different policy objectives. But a potentially damaging conflict is emerging in a field close to the government's heart: non-wage labour costs.

These costs have always been relatively low in Britain because healthcare and much of welfare spending is paid for out of general taxation. Several continental European countries, by contrast, impose big pay-roll taxes on employers and employees.

According to the European Commission, non-wage labour costs add an average of 30 per cent to employment costs in the EC. The figure approaches 50 per cent in Germany, France, Italy and Belgium, but is only 13 per cent in Britain, primarily national insurance.

The government believes that low non-wage labour costs, combined with relatively light labour regulation, are an important part of the UK's comparative economic advantage.

The small "tax" on jobs contributes to a high proportion of adults in work as well as sucking in a disproportionate level of inward investment.

The "opt-out" from the Maastricht Treaty's social chapter on minimum employment rights, apparently a policy triumph for prime minster Mr John Major, was fought for on the grounds that it allowed Britain to hang on to its low non-wage labour costs.

Yet much of what the government is doing, or planning, runs counter to this commitment. In the current review of public spending, ministers openly speculate about transferring welfare costs from the state to individuals and employers, threatening to send non-wage labour costs climbing.

And, curiously, if more costs were to be transferred to employers, it would be consistent with what has actually happened over the past 10 years.

In the early 1980s the government abolished the redundancy fund, which allowed employers to claim back the costs of statutory redundancy pay. In 1991 employers were made responsible for paying 20 per cent of statutory sick pay benefits.

Just last week the government announced that employers would have to foot the bill for improvements to maternity pay required by a European directive. The government also plans to cap the reimbursement employers receive for employing disabled people and will require employers to deduct child support payments from recalcitrant fathers. (In the case of the maternity directive and the disablement cap the government will be creating disincentives to pursue its own equal opportunities goals).

The government's response is to point out that most of these burdens are short-term and inexpensive. The extra maternity payments are, for example, said to be just 0.02 per cent of Britain's wages bill. The government would also argue that, thanks to the social chapter opt-out, non-wage labour costs will be rising from a low base.

But it is the trend that is worrying. According to the government's own figures, non-wage labour costs have doubled over the past 20 years. And the administrative burden is often more important than the direct cost. Already employers have to deal with PAYE for the state and, encouraged by the government, about half of all employees are in company pension schemes. These have, until recently, produced great financial benefits for many companies, but still impose a considerable administrative cost.

"Despite its rhetoric the government seems to be drifting towards the discredited continental European model of employer-based welfare," warns Mr Ira Chalphin of the Institute of Directors.

It is not only employers' organisations which complain about new overheads. There is a consensus among labour market analysts that shifting the welfare burden away from employers is good for employment and labour market flexibility. The latest OECD Employment Outlook says that the financing of social security systems should switch from payroll taxes to other taxes that "have a less unfavourable impact on employment".

Even the European Commission's Employment in Europe report, normally more sympathetic to continental European labour markets, says that high employers' contributions encourage the black economy.

There are some things to be said for pay-roll taxes. From an employee's point of view they may help to protect welfare payments from the vagaries of government spending. From an employer's point of view they help to reduce unwanted labour turnover by locking-in employees.

But that also creates a "lock-out" effect for the unemployed by increasing the fixed cost of employment. In any case even in countries with low statutory pay-roll costs, employers can provide discretionary benefits such as private health care and company cars to those employees they want to lock in.

Several continental European countries are currently trying to unload some of their pay-roll taxes on to general taxation. Belgium is trying to reduce employers' social security contributions in export industries by introducing a national energy tax and the new French government wants to cut the family allowances that employers have to pay.

Low non-wage labour costs are vital for Britain's "work-sharing" economy, in which part-time employment plays an important role, because employers are relatively indifferent as to whether they employ a large number of people for short periods or a smaller number for long periods.

Britain is a low-wage economy compared with France or Germany, but thanks to the high level of employment, national income per head is not far behind those countries. Higher non-wage labour costs would jeopardise that balance.

The UK is not the only highly indebted government facing a dilemma over non-wage labour costs. Across the Atlantic the Clinton administration is facing an even more blatant conflict between its aim of creating a large number of jobs, and its objective of implementing a national health insurance programme which would, inevitably, increase the cost of hiring.

Paribas sets up unit for derivatives

By Tracy Corrigan in London

BANQUE Paribas, the French bank, plans to set up a new unit to guarantee its derivatives business. It will be the first separately capitalised derivatives unit created by a European bank, following a trend started by Merrill Lynch and Salomon Brothers.

Financial institutions with weak credit ratings have found themselves at a competitive disadvantage to top-rated banks in the highly credit-sensitive but lucrative derivatives market.

The crunch comes when their ratings fall to single-A, as many firms are limited by internal restrictions to dealing with credits rated double-A and above. Banque Paribas is rated A1 by Moody's and A by Standard & Poor's. S&P assigned the new unit a preliminary rating of triple-A on Friday.

Credit quality is particularly significant in the $4,000bn over-the-counter market in swaps and options, because exposure to a counterparty is often over a long period.

The new Paribas unit, Paribas Dérivés Garantis SNC, is 99.9 per cent owned by Compagnie Financière de Paribas. The unit will act as a guarantor, rather than a counterparty. Paribas the structure had been chosen to allow clients to continue to deal with Banque Paribas, a regulated bank. The Commission Bancaire, the French bank regulator, has approved the structure.

The initial amount of capital backing the unit is FF800m. Like Swapco, the total capital will be adjusted regularly according to the commitments of PDG.

Medway bid talks are at advanced stage

By Christopher Price

MEDWAY PORTS, which recently announced its intention to seek a stock market flotation next year, confirmed yesterday that "a number of approaches had been received which may or may not lead to an offer for the company."

Potential bidders are thought to include Forth Ports, Mersey Docks and Powell Duffryn. Medway admitted that discussions with an unamed party – thought to be Forth – had reached an advanced stage.

Pre-tax profits are likely to reach £10m this year, which at current industry valuations would put a potential sale price of £100m on the the Sheerness-based group.

Medway, which was bought by its management and employees for £37m in March last year, has made no secret of its desire to link up with other port and shipping groups, and has indicated that in the absence of a merger its flotation would enable it to make acquisitions.

Mr Peter Vincent, chief executive, said recently: "If it was a safe pair of hands, we'd have to look at it very seriously. I see Medway as part of bigger group in the long term, whether we build it up ourselves by acquisition or find a partner."

As the flotation was predicted to raise in the region of £70m, a sale at the potentially higher price would result in a windfall for Medway's 270-strong workforce, which was recently granted share options as part of an incentive scheme.

For the 10 months to December, Medway made pre-tax profits of £3.5m on turnover of £25.2m. In the first six months of this year, pre-tax profits have jumped to £4.5m.

Buy-out at Fisons offshoot

By Bethan Hutton

FISONS has disposed of CP Pharmaceuticals, its Wrexham-based hospital and generic products subsidiary, to a holding company formed by a management buy-out team, led by Mr Charles Savage. The price paid was not disclosed.

The company was formed by Fisons from a merger of Charnwood Pharmaceuticals with Weddell Pharmaceuticals in 1983, and employs about 200 people. Fisons announced its intention to sell CP Pharmaceuticals last September.

Mr Savage said the company intended to make spare capacity available to other pharmaceutical companies on a contract manufacturing basis, and would also be looking to establish strategic alliances with similar companies.

Correction

Mr Jonathan Agnew

An article in the Financial Times on August 6 incorrectly reported Mr Jonathan Agnew as having been dismissed by Kleinwort Benson Group. In fact, as Kleinworts said in a press release on May 4, Mr Agnew intended to resign in August after the announcement of the interim results. The chairman's statement of August 5 confirmed Mr Agnew's resignation on August 6. The FT apologises to Mr Agnew for any embarrassment caused by the error.

New London losses surge to $23.7m

Losses at New London, the UK oil and gas company, deepened from $1.46m to $23.7m (£15.9m) pre-tax in the year to March 31.

The London-based company booked net provisions of $16m against disposals.

Turnover totalled $135.9m compared with $112.9m. Turnover of the continuing operations amounted to $29.6m and generated operating profits of $1.3m.

Losses per share widened from 1.2 cents to 23.2 cents.

Hoping a healthy future will be diagnosed

James Buxton reports on the development of Shield Diagnostics, which is to be floated next month

SHIELD Diagnostics, which will be floated on the Stock Exchange next month, is that rarity among the crop of biotechnology companies that have come to the market recently: one that already has products on sale.

The Dundee-based company has 23 products for diagnosing illnesses in use worldwide. Its sales have increased fourfold in each of the past two years, partly by acquisition, and reached £1.7m in the year to March 31 1993, having been £110,000 in 1991.

The fact that it has been selling products distinguishes it from four of the five biotechnology companies which have been listed on the Stock Exchange in the past 14 months: out of British Bio-technology, Tepnel Diagnostics, Celsis Diagnostics, Anagen and Drew Scientific, only the last is earning money from its products.

Yet Shield's path to a listing has been no smoother than many other high technology companies. Founded in 1982 with eight people, it only started shipping products in 1990, and last year it lost £653,000, though that was better than the previous year's deficit of £1.4m. It is not expected to break even until 1994.

Shield was created by entrepreneurial scientists from Dundee university and the city's Ninewells hospital. Its field has always been that of in vitro diagnostics – the diagnosing of diseases in tests outside the body.

In 1987 Mr Hamish Hale of the venture capital company Alan Patricoff Associates (now named Apax Partners) became its chairman and Shield, under new management, raised £4.5m of venture capital funding.

It built up a strong team of managers by "cherry-picking" senior staff from established biomedical companies. But by 1990 it had already spent £8m on research and development without bringing any product to the market.

In that year Mr Hale recruited Mr Gordon Hall from Abbot Diagnostics, the big US diagnostics company, to be chief executive. "My task was to get some products out and get the budget under control", says Mr Hall.

His own diagnosis of Shield was that its strength lay in developing and manufacturing diagnostic discoveries; but it was hampered, like the other small biotechnology companies, by high fixed overheads.

Although the company soon began marketing a range of kits that test for a variety of auto-immune diseases, Mr Hall bought in discoveries from other companies which Shield could manufacture, thus spreading the overheads burden.

Last year Shield acquired two products from Northumbrian Biologicals, which added nearly £700,000 to its turnover. They were a test for chlamydia, a sexually transmitted, genito-urinary disease which affects women, and for cytomegalovirus, an agent which can produce infections and for which donated blood is increasingly being tested worldwide.

"Our products are consistent, which those of some of our small rivals are not," says Mr Hall. "That means they will have the same characteristics in a year's time as they have today, which makes them a reliable test."

Gordon Hall: task was to get products out and control the budget

Shield, he says, is not dependent on the UK's National Health Service, which he says pays poorly. It exports two-thirds of its output, mostly to multinational diagnostic companies in the US, Germany and elsewhere.

The company has high hopes for two of the tests which it has under development. It is perfecting an advanced form of test, based on research by Oxford university, to enable doctors to predict whether a person is likely to suffer heart attacks. With Stago of France it has attracted a grant of up to £445,000 from the EC's Eureka fund for promising technology.

It hopes the test, already being sold for research purposes, will be on sale in three years time. "It's a big market. Already 500m cholesterol tests for heart disease risk are carried out each year worldwide", Mr Hall says.

Shield has also started work on a test to identify women at risk from the disease osteoporosis, which causes brittle bones after the age of 45. Mr Hall points out that there are 12m women aged 45 or over in the UK alone.

The flotation, which should capitalise the company at £20m, will be a placing and will raise new equity to fund future development.

The company intends to acquire other companies and buy in new products. It would like to become the biggest British-owned company in the field of in vitro diagnostics.

"Obviously we don't expect to go on growing at the same rate as the last two years," says Mr Hall, "but we expect reasonable growth in sales." More space at the company's headquarters on the Dundee Technology Park is being converted from offices to manufacturing. Staff now total 45.

The company is speaking to analysts ahead of next month's flotation, which is being sponsored by the Glasgow stockbrokers Allied Provincial.

The existing institutional shareholders are expected to stay on board. Led by Apax, they also include the venture capital funds Cygnus Ventures, Summa and Grosvenor Ventures. Scottish Enterprise, the successor to the Scottish Development Agency which helped Shield in its early days, is a small shareholder.

● Shield will come to the market in the same month as Scotia Pharmaceuticals, the drug company formerly known as Efamol, which concentrates on products based on fatty acids and funds its research from sales of evening primrose oil as a dietary supplement.

Though currently based at Guildford in Surrey, Scotia has strong Scottish connections, manufacturing some of its products at Callanish in the Western Isles, and may shortly establish a plant in Dundee.

Scotia was founded by Dr David Horrobin 16 years ago. It made pre-tax profits in 1991-92 of £1.1m on turnover of £16m.

Earlier this month dealings in its shares were suspended ahead of the flotation, details of which have not been disclosed. The shares had traded at a price which would value the company at more than £180m.

Dissident shareholder steps up campaign against Hoskins

By Catherine Milton

THE LEADER of dissident shareholders at Hoskins Brewery, which last week delayed publication of its full year results, has circulated a letter to the company's investors in his campaign to oust the chairman and another director from the board.

The independent brewer of real ales, which is quoted on the USM, said the announcement of its results had been delayed by difficulties in getting required consent for publication from one of the directors who was on holiday in Cornwall.

The results were due out on Friday but are now scheduled for publication today.

The dissident leader, Mr Richard Holman, who holds a 7.4 per cent stake in Hoskins, is the second shareholder in two years to challenge the current board on grounds of its record.

A separate attempt to remove the Hoar brothers from Hoskins' board collapsed last year when the campaign failed to attract sufficient shareholder support.

Mr Holman, who claims the support of about 40 per cent of shareholders, has requisitioned a special meeting at which resolutions will call for his own appointment to the board and the removal of Mr Barrie Hoar as chairman, and his brother Mr Robert Hoar, as a director.

Mr Barrie Hoar, whose family holds 30 per cent of the stock, said he and his brother would resign when the company's future is secure: "I hope shareholders will understand the efforts that we have made in repositioning the company so that its future can be safe and sound."

The two had planned to leave the board on the conclusion of a deal with Mr Adam Page, founder of Midsummer Leisure.

The deal, which involved the injection of some of Mr Page's businesses into Hoskins, has formally lapsed.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Venezuelan Goldfields (Canada)	Lihir project (Papua New Guinea)	Gold mining	£40m	Part of RTZ disposal plan
MBO team (UK)	Unit of Allergan (US)	Optical glass	£27m	Buying intl business
Nippon Sheet Glass (Japan)	Triplex Safety Glass (UK)	Glass	£13.3m	Pilkington selling 20%
Ricoh (Japan)/Shanghai Facsimile Machines (China)/ Champion Technology (HK)	Joint venture	Office equipment	£10m	Fax manufacture venture
Fairey (UK)	Luxtron (US)	Specialist instruments	£8.4m	Cash purchase
CWB Capital Partners (UK)	Tarkett (Sweden)	Flooring	£285m	Stora non-core disposals
Crystal Oil Co (US)/ Orenburgneft Production Associates (Russia)	Joint venture	Oil and gas	n/a	Expected operational by late 1993
IDV (UK)/Vina Concha y Toro (Chile)	Joint venture	Drinks distribution	n/a	IDV building internationally
Quexco Inc (US)	Unit of Royal Dutch/Shell (UK/Netherlands)	Lead products	n/a	Selling [illegible]
Lagoven (Venezuela)/ Shell/Exxon (US)/ Mitsubishi (Japan)	Joint venture	Gas	n/a	Foreign equity returns to Venezuela

Probe into FFr1.2bn bid to take control of Fnac

By Alice Rawsthorn in Paris

THE FUTURE of Fnac, one of France's largest retail groups and the leading force in the music and books market, has been flung into doubt with the announcement of an official investigation into a bid for control of the group.

The Commission des Opérations des Bourse (COB), the Paris stock market watchdog, has ordered a formal inquiry into the price of the FFr1.2bn ($198m) bid for a controlling 54.78 per cent stake in Fnac tabled last month by Altus Finances, a subsidiary of the Crédit Lyonnais banking group, and Phénix, the property company owned by the Générale des Eaux industrial concern.

Altus and Phénix agreed a deal under which they have an option, until October 11, to buy the stake from Garantie Mutuelle des Fonctionnaires (GMF), the financial group that owns 80 per cent of Fnac. At FFr2,928 a share the deal values Fnac at FFr2.4bn.

The option means that GMF, which needs to raise cash to compensate for losses in other businesses, has until October to find alternative capital, should it decide to retain control of Fnac.

Fnac, which owns 40 shops in Europe, made net profits of FFr156m on sales of FFr8.2bn in its last financial year. It dominates the music and books market in France, where it has been embroiled in a high-profile battle against Virgin, the UK leisure group which is making inroads into French retailing.

GMF's financial problems were well-publicised and a number of other retail groups, including Pinault-Printemps in France and Bertelsmann of Germany, had expressed interest in Fnac before the announcement of the Altus/Phénix deal.

Mr François Pinault, founder of Pinault-Printemps, has since confirmed that he would still be interested in investing in Fnac.

The Altus/Phénix bid has been put on ice until the COB investigation is completed. A provisional completion date has been set for early September. In the meantime, Fnac's shares will remain suspended.

Laurentian ahead at C$15.8m

By Robert Gibbens in Montreal

LAURENTIAN Group, the Canadian financial services company being merged with the larger Mouvement Desjardins, reported first-half net profit of C$15.8m (US$12m), or 25 cents a share, up from $14.3m, or 23 cents, a year earlier, on revenues which were little changed at $1.4bn.

Second-quarter profit was equal to 12 cents a share, compared with 10 cents last time.

The group's assets rose to $15.7bn at June 30, with the expansion of the Laurentian Bank.

The life and general insurance units improved their results sharply.

Imperial Life, Laurentian's biggest single unit, doubled first-half profit to $14.1m, or $5.89 a share, on revenues of $569m, up from $561m.

With the merger due to be completed next month, Laurentian and Desjardins will put their financial services units into a new holding company to be minority-held by the public.

The total combined group, including the Desjardins credit union branches, will have assets of nearly $80bn, including funds under management. It will rank as the sixth-largest banking and financial services group in Canada.

● Abitibi-Price, Canada's biggest newsprint producer, is raising between C$100m and C$125m with a public offer of common stock next month.

The issue is being underwritten by a group led by the brokers Nesbitt Thomson, and will consist of between 8m and 10m shares priced at C$12.75 each. The offer is not being registered in the US.

Proceeds will be used to repay short-term debt and bolster working capital. Abitibi already has the lowest debt-equity ratio in the Canadian forest products industry.

Group loss at Banesto for first six months

By Peter Bruce in Madrid

BANESTO, the big Spanish banking group, has reported a consolidated loss of Pta130m ($910,000) for the first half of 1993, compared with a group profit of Pta32.7bn in the same period last year.

The first-half figures, which include the Banesto parent, its affiliated banks and its big industrial holding company, were released two days after Banesto announced it had completed a record Pta94bn capital increase.

The first-half figures are not surprising, as Banesto has been making big provisions and weaker profits from its banks have not been enough to cover losses in the industrial group as Spain has sunk further into recession.

The banking group reported first-half profits earlier this year of Pta6.7bn, down 82.6 per cent on 1992.

While the consolidated figures also show that Banesto is having some trouble containing operating costs, the first-half loss is nevertheless a sharp improvement on the Pta2.4bn deficit reported for the first three months of this year.

● Banco Central Hispano made a net profit of Pta39.6bn in the first half of the year, a 6.6 per cent increase on 1992.

The bank said that it had allocated Pta54.6bn to depreciation and provisions, a 46.4 per cent increase on last year.

Malaysian bank increases profits

MAYBANK, Malaysia's biggest banking group, has announced pre-tax profits for the year to June 30 of M$791.5m ($309m), a rise of more than 40 per cent, writes Kieran Cooke in Kuala Lumpur.

The increase reflects the strong performance of the Malaysian economy, which has grown by more than 8 per cent in each of the last five years.

The bank is proposing a one-for-two bonus issue in order to increase authorised share capital from M$1bn to M$2bn.

Sumitomo Chemical to resume production of epoxy resin

By Gordon Cramb in Tokyo

SUMITOMO Chemical, supplier of most of the epoxy resin used in making the world's semiconductors, expects to resume production around the end of the year after an explosion last month halted output at its plant in south-western Japan.

Spot prices for memory chips soared as a result of the accident, and the share price of Nippon Kayaku, the other main Japanese supplier of the material, reached new highs last week after it announced that it was increasing capacity.

Sumitomo initially expects to bring back on stream one of the two production lines at its factory in Niihama, which accounted for about 60 per cent of the world market for epoxy resin.

Sumitomo Chemical says the episode will have no material impact on its earnings, although it has declined to make a forecast for this year. The company slipped into loss for the first half to June.

United Airlines files complaint

UNITED Airlines, the large Chicago-based carrier, has filed a complaint against the Australian government with the US Department of Transportation, alleging the Australian authorities have "unlawfully restricted" the airline's proposed new New York-Tokyo–Sydney service, writes Nikki Tait in New York.

United has been seeking for several years to fly the north Pacific route, a service which, it argues, is permitted under the bilateral aviation agreement between the countries.

Swiss wake up to winds of change

Exchange-rate turmoil has reinforced traditional safe-haven status

THE SWISS, according to a joke they like to tell against themselves, get up early but they wake up late.

The big three Swiss commercial banks – Union Bank of Switzerland (UBS), Credit Suisse and Swiss Bank Corporation (SBC) – were among the slowest to wake up to the liberalising winds that swept through the world banking industry in the 1980s.

Comfortable in their protected home market, they were content to make modest returns on their exceptionally strong capital bases.

But the revelation by UBS last Thursday of first-half consolidated net income of SFr1.29bn ($845m) – 40 per cent of it coming from overseas operations – indicates that they are now wide awake and among the world's more profitable commercial banks, as well as the soundest.

Credit Suisse will report its first-half result on Wednesday and SBC on September 2. Both are expected to reveal profit growth similar to the 89 per cent surge at UBS.

The transformation at these banks dates from about two years ago, when their traditionally dependable profit streams were coming under increasing threat and the need to cut costs and develop new sources of income became pressing.

In Switzerland, they were forced to break up the pacts by which they long shared dominant positions in the lush domestic securities markets. And with the end of the cold war and the stabilisation of west European currencies, it looked as if the country's role as a safe haven for capital was becoming obsolete. Meanwhile, a deepening domestic recession was exposing the excessive commercial banking capacity in the Swiss market.

Like the Japanese, the Swiss take a long time to get moving, but once they do, they tend to move quickly. In the past couple of years, more than 60 banks have disappeared, and CS Holding, the parent company of Credit Suisse, virtually completed the process of domestic rationalisation in April with its SFr1.6bn acquisition of Swiss Volksbank.

Abroad, the three turned equally decisive. In 1991, after seven years of struggle, UBS finally began to see some profits from its acquisition of Phillips & Drew in London.

Coincidentally, Credit Suisse was bailing out its First Boston investment banking subsidiary in New York and SBC was forming what has turned out to be a highly profitable alliance with O'Connor, the Chicago derivatives partnership.

Once content with modest returns from their protected home market, SBC, UBS and Credit Suisse are now among the world's most profitable banks, reports Ian Rodger

By the first half of this year, these efforts were paying off handsomely, as the UBS results show. But the Swiss have also been very lucky.

Fiscal troubles in Germany, political upheaval in Italy, explosions within the European exchange rate mechanism – this is the stuff on which safe havens thrive. Since last summer, huge sums of money have poured into Swiss banks, mainly from Germany and Italy, but also from other European countries.

This enabled the Swiss National Bank to start lowering interest rates long before its counterparts in other continental European countries. From a peak of more than 9 per cent in May of last year, the three-month Euro-Swiss franc rate has plunged to 4.5 per cent.

While banks in other European countries are only beginning to be able to widen their spreads, Swiss banks have been doing so for nearly a year. In its typically cautious way, UBS managed to hide much of the positive impact, recording only a modest 10.9 per cent gain in net interest income in the first half.

(UBS raised its bad loan provisions in the first half by SFr265m, rather more than the SFr188m by which it raised its net interest income. For a bank that was shrewd enough to avoid any exposure to Robert Maxwell, Polly Peck and Olympia & York, this performance is, to say the least, implausible.)

But the main contributor to the UBS profit gain was trading. The bank's profits from securities and foreign exchange trading soared by 144 per cent in the first half to SFr1.55bn, due to an extraordinary combination of positive forces.

Foreign exchange markets continued to be active in the first half, as the yen rose against the dollar and various European currencies were under pressure against the D-Mark.

Bond markets have risen and the London stock market, where UBS is a leading participant, was also buoyant. The Swiss stock market has been a spectacular performer, with a 26 per cent advance in the all share Swiss Performance Index since the beginning of the year.

Analysts were fulsome in their praise for UBS. A couple worried about the excessive contribution of volatile trading income to profits, but Mr Derek Bullman of London broker James Capel said any reduction in trading income in the near future would be offset by continued recovery in other operations and reduced provisions. "I am not worried about the bottom line at all," he said.

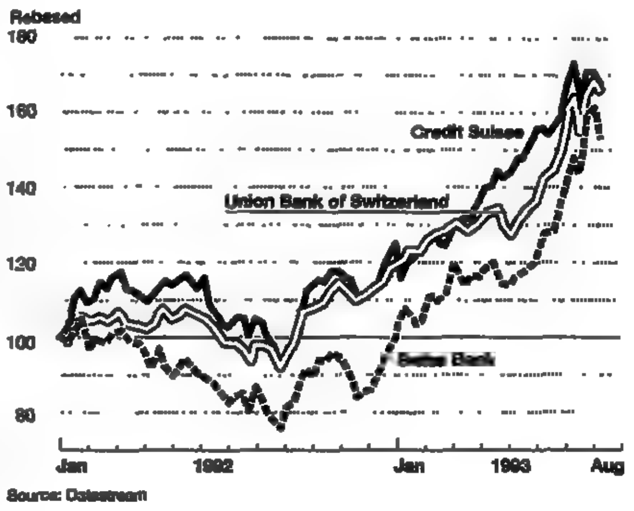
Analysts are also confident that Credit Suisse and SBC have benefited from the same factors that lifted the UBS result. "Credit Suisse has already been getting a larger portion of its earnings from securities and commissions than the other two," Mr Hans Kaufmann, head of Swiss brokerage research at Bank Julius Baer in Zurich, pointed out.

However, special factors make it difficult to estimate the results from both. Credit Suisse figures will include for the first time the activities of Swiss Volksbank, and no one knows how rationalisation costs or the roughly SFr400m of "badwill" acquired as a result of paying less than book value will be treated.

SBC profits should show the highest growth rate, but only because they will be compared with an exceptionally poor first half of 1992. Net income from operations plunged 30 per cent to SFr758m then, mainly because of the costs of reorganising the group's Swiss private banking subsidiaries and of integrating O'Connor.

The shares of all three banks have performed extremely well this year, and analysts, while still confident of further profit growth, are becoming cautious about recommending them. "They are not yet overvalued, but they will probably have a bit of a pause," predicted Mr Daniel Koenig, banking analyst at Pictet in Geneva.

Swiss bank share prices



Source: Datastream

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Yields continue to fall towards 6%

THESE ARE the best of times for US bond market investors. It is difficult to imagine how conditions could be much more favourable to holders of government securities.

Inflationary pressures are almost totally absent from the economy. Because of that, monetary policy is on hold with interest rates near record lows.

The Federal Reserve's policy-making Open Market Committee meets later this week and the expectations on Wall Street are that the FOMC will vote to keep the bias of policy neither inclined to an easing nor to a tightening.

Inflation will probably stay low because the economy is growing so slowly. Recent economic data have painted a picture of an economy still struggling to break out of its post-recession blues.

After a short burst of growth in the final quarter of last year, output has dropped significantly this year, and there is little sign that the economy will pick up until at least next year.

Supply conditions favour the long end of the market. Just over $11bn in 30-year securities were sold at auction last week, but because of the Treasury's decision earlier this year to try to lower the cost of financing the federal deficit by cutting the supply of bonds and shortening the maturity of the national debt, the final bond auction of 1993 is already out of the way with only two-thirds of the year completed.

The political environment is also favourable to bonds. President Bill Clinton's first budget was passed by Congress 10 days ago, and in spite of its tax increases, it was warmly welcomed by fixed-income investors.

This is primarily because most bond economists expect the deficit-reduction package to slow economic growth over the next year or so. Also, the bond market likes the budget because it is regarded as the first attempt (albeit a flawed one) by a modern US administration to tackle the huge federal deficit.

Even the foreign exchange markets have been boosting bond prices, although only indirectly. Recent turmoil within the European exchange rate mechanism and cuts in interest rates across Europe sent investors scurrying into the dollar as a safe haven. When foreign investors seek the security of dollar assets, many buy US government securities.

It should be no surprise, therefore, to see bond yields at historic lows. As of Friday afternoon, the yield on the benchmark 30-year issue had dropped to 6.34 per cent, the lowest since 1971. This is all the more remarkable considering less than three months ago bond yields were at 7 per cent and rising.

The market's rally has stunned economists. In the Wall Street Journal's survey of forecasts last December, no less than 44 top economists predicted that long yields would be at 7.44 per cent by the end of June this year.

That they were more than 100 basis points out is mostly due to their failure to forecast economic growth accurately.

At the end of last year the economy was growing at a healthy pace, and economists were forecasting continued strong growth, resurgent inflation, and a tighter monetary policy.

They were wrong on all three counts, because the strong growth recorded during the final quarter of 1992 proved to be a temporary blip on the screen – a short, unsustainable burst of economic activity tied as much to the election of a new president as it was to any fundamental improvement in consumer and corporate sentiment.

How far can bond yields fall? If inflation remains as subdued as it is now ("core" consumer and producer prices both rose a meagre 0.1 per cent in July), if monetary policy remains on hold, and if the Clinton budget has a dampening effect on economic activity, then bond yields of below 6 per cent by the end of the year are not out of the question.

Patrick Harverson

JAPANESE BONDS

Hopes of recovery fade as yen rises

THE JAPANESE bond market has brushed aside uncertainty over economic policy of the country's new government, which took office last week, and has instead focused on further evidence of a weaker economy, driving long-term interest rates down to five-month lows.

The yield on the No 145 10-year benchmark fell to 3.995 per cent – the first time since March 19 that it had fallen below 4 per cent – before closing the week at 4.08 per cent.

Hopes of an imminent recovery have faded as the economy faces an increasing number of stumbling blocks. Aside from continuing sluggishness in corporate activities, consumer spending has been hit by bad summer weather, and the yen's rise to record levels threatens to strangle exports.

The ratio of job offers to applicants fell to 74:100 in June, down from 81:100. Industrial production declined by 5.1 per cent from the previous year, falling for the 21st consecutive month, while machinery orders fell again for the 15th successive month, a down 13.3 per cent.

The unusually long rainy season and cool summer have depressed sales of air conditioners, clothing and beer, which usually rise during the summer. Even if the weather improves, retailers do not expect a rapid recovery to make up for the earlier losses.

The yen has appreciated 21.5 per cent from the beginning of the year, closing the week in Tokyo at a record Y102.40 to the dollar. Traders said the trade surplus, which rose 28 per cent in July, was the leading cause, while speculation of political pressure from the US is also driving the yen higher.

Such factors, along with the Bank of Japan's unexpected easy stance over its money market operations last week, have heightened hopes of monetary easing.

The central bank allowed three-month certificate of deposit yields to fall to 3.1 per cent on Friday, down from 3.23 per cent at the start of the week. The overnight call rate, which is closely controlled by the BoJ's money market operations, fell through a perceived floor of 3.2 per cent to 3.18 per cent.

Concerns over extra supply due to redemptions of equity-linked bonds have also been put aside. According to the Bank for International Settlements, equity-linked bond redemptions peaked during the April-June quarter, totalling $26.5bn. The BIS said many corporate issuers raised funds during the first quarter, leading to a decline in bond placements in the second quarter.

Meanwhile, some analysts see the pessimism over recovery as overstated, since the widely-expected cut in the official discount rate will help a gradual recovery. Moreover, although bad weather may postpone a rise in consumption, it does not cancel it.

Mr Geoffrey Barker, economist at Baring Securities in Tokyo, points out that the yen is in "overshoot territory" since, in yen terms, the trade surplus has peaked and has started to decline. Using the correlation between the yen-based trade surplus and long bond yields, he predicts that the coming two months is the last leg of a three-year decline in interest rates.

While the US dollar-based trade surplus has been rising, on a yen basis it has peaked and has been falling month on month since spring. Since a fall in the trade surplus means an increase in the outflow of funds, this eventually leads to a gradual rise in interest rates. Long-term interest rates lag about six months behind the yen-based trade surplus, and the yield on the benchmark may be close to a bottom.

Mr Barker predicts that the yield on the No 145 benchmark still has room to fall to the 3.8 per cent level, reached earlier this year, and advises taking profits around that level.

Emiko Terazono

UK GILTS

Inflation forecasts boost prices

DRIVEN by more signs of easing inflationary pressures, gilts continued their recent rise, helped by a generally optimistic assessment by the Bank of England about future price trends.

Yields of gilts at the 10-year maturity fell by about 20 basis points on the week to be quoted on Friday night at about 6.9 per cent.

The decline at the longer end of the yield curve was even greater, partly as a result of the announcement by the Bank on Friday that there would be no gilt auction at the end of this month.

That statement followed from the good progress by Threadneedle Street in selling bonds to cover the expected £50bn public sector borrowing requirement this financial year.

Just four and a half months into the year the Bank has accounted for nearly 60 per cent of deficit by selling about £29bn worth of gilts.

With the summer holidays in full swing, it is no wonder that Bank officials calculated they could take a rest from new gilt auctions, which recently have been held at the rate of one a month.

The Bank's announcement, which came at the end of a week in which it sold more than £1.5bn of gilts through taps, triggered spiralling prices at the long end of the yield curve, leaving long-dated gilts up a net ¾ of a point on the day.

Sentiment about gilts was helped earlier in the week by the Bank's latest inflation report, which said that the Treasury's favoured measure of underlying inflation is unlikely to breach the government's 4 per cent ceiling in the next two years.

This measure defines underlying inflation as the year-on-year rise in the retail prices index excluding mortgage payments.

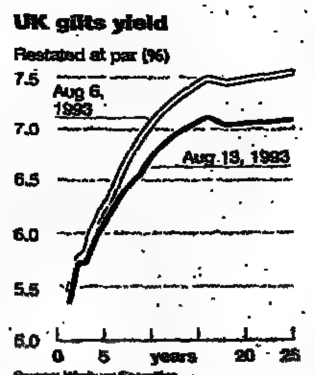
The generally positive views about price pressures came in a comprehensive Bank study which discussed more than 28 ways of measuring inflation.

The report said: "Many goods prices are rising more slowly than three months ago, and inflation in the service sector has fallen considerably."

The view that price pressures are likely to stay muted was supported by news that manufacturing wages and salaries per unit of output were 3 per cent lower in the three months to June than they were in the same three months a year ago. This figure compares with a fall of 3.4 per cent in the three months to May.

In addition, average earnings growth across the economy slowed to an underlying 3.5 per cent in the year to June, the lowest figure for 25 years and a quarter of a percentage point lower than the figure for the 12 months to May.

UK gilts yield



Source: Warburg Securities

While encouraged by these findings, gilt investors also warmed to the tone of other UK economic data last week pointing to a slowing in the pace of the recovery in manufacturing.

Significant manufacturing and export growth in the first half of the year has been the driving force behind the signs of economic revival after the long recession.

However, gilt investors would like to see a deceleration in the recovery profile, on the grounds that this would be less likely to stimulate inflationary pressures.

On this basis, the announcement that manufacturing output in June dropped by 2.1 per cent compared with May was greeted enthusiastically by many gilt market participants.

This was the sharpest monthly drop since February 1988.

Even though the June figure partly compensated for a big increase in output in May, it underlined the belief that manufacturers are unlikely to see the favourable trading conditions that they enjoyed in the first half of 1993 replicated in the second half. This is partly because of a slowdown in important export markets in continental Europe.

A survey conducted jointly by the Confederation of British Industry and Business Strategies, a consultancy, said that manufacturing order books in six out of the 11 UK regions were in a weaker position in July than three months earlier. This supported the gloomier tone of prognostications about the sector's outlook.

The level of orders in northern and north-west England, the south-east, west Midlands, Wales and Northern Ireland were all worse in the current survey compared with three months earlier.

However, the levels of output volumes fell over the same period only in four regions – the south-east, south-west, north-west and Wales.

The survey said that inflationary pressures across the country were subdued, while the best prospects for manufacturing were in the west Midlands and Scotland.

Peter Marsh

FT/ISMA INTERNATIONAL BOND SERVICE

	Issued	Bid price	Chg on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn=current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price.

Closing prices on August 13

INTERNATIONAL BONDS

Denmark deal highlights progress of Switzerland

THE LAUNCH last week of a SFr1bn Eurobond issue by the Kingdom of Denmark has highlighted the steady progression of Switzerland from a bond market dominated by retail investors into one which can satisfy the requirements of large borrowers and institutional investors.

Denmark's six-year offering, which rivalled the record for a single Swiss bond transaction set by the Republic of Austria at the end of June, came as a surprise to the market.

The kingdom, which has been borrowing heavily to replenish foreign exchange reserves depleted by the heavy currency intervention to restore stability to the European exchange rate mechanism, had been expected to opt for the more liquid French franc sector.

The two big sovereign deals have encouraged syndicate managers at the Swiss banks, especially since they have been making a concerted effort to convince international borrowers that the Swiss bond market is capable of accommodating large bond issues.

Another feather in their cap is the SFr600m, 10-year offering from the Inter-American Development Bank which was launched in July.

The syndicate managers are confident that it will only be a matter of time before "the right issuer at the right price" can push the record for a single transaction in the Swiss bond market up to SFr1.25bn.

"The Swiss bond market is receptive to excellent names," says one manager.

The market anticipates that several more sovereign and supranational borrowers will tap the market in the coming weeks.

Certainly, the Swiss banks' marketing campaign has been helped by a series of measures by the government and the Swiss National Bank in the last year to liberalise capital markets, ranging from cutting turnover tax to relaxing syndication regulations.

The impact of the measures has been to reduce dramatically the cost to both the issuer and investor. This in turn has made the foreign sector much cheaper than the domestic market, hence increasing volume and liquidity.

Total new issue volume in the Swiss bond market in 1993 to date has been SFr23.3bn, compared with a total of SFr26.1bn for the whole of 1992.

The turbulence in the European exchange rate mechanism has also worked in the favour of the Swiss bond market, as investors took refuge in the relative safety of the Swiss franc.

Although the foreign money did not necessarily go into the bond market, bankers said the inflow had a positive impact on the market's liquidity.

The currency's consequent appreciation has increased expectations of lower interest rates in Switzerland, which in turn has resulted in a significant drop in bond yields. Some economists expect Swiss short-term rates to fall to 4 per cent by the end of the year from their current level of around 4.55 per cent.

UBS, which arranged Denmark's offering, is particularly positive on interest rates and its stance is reflected in the pricing of the bonds. They carry a coupon of 4.25 per cent, which compares with a coupon of 4.5 per cent on Austria's bonds which have a 6¼ year maturity.

Inevitably, this has prompted some criticism in the market, especially among those who believe that Swiss interest rates have reached a plateau and that the Danish offering was unrealistically priced.

"The pricing is anticipating a fall in interest rates well in advance of the event," one banker said.

Officials at UBS reject this criticism and say they are confident that the entire issue will be placed by the payment date on September 30, and that by then its yield will look more attractive.

Irrespective of when the next interest rate cut will occur, investors are increasingly taking the view that Swiss interest rates are close to their floor.

Therefore most of the recent issues do not have a maturity of more than seven years. "Investors believe that interest rates will be higher in four or five years," one banker said.

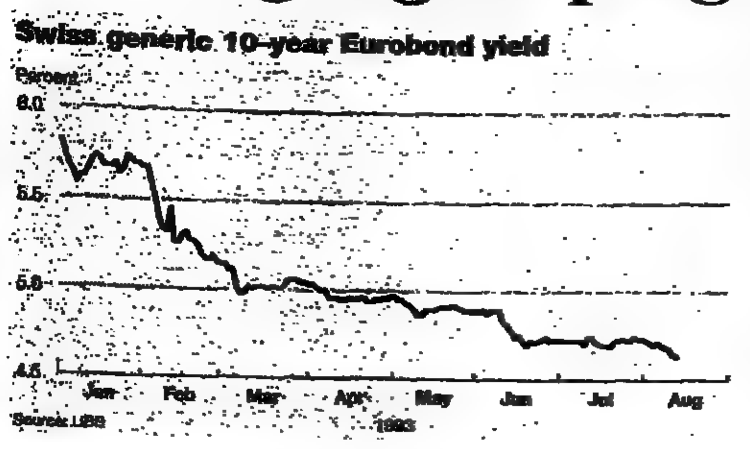
In spite of their recent achievements, however, Swiss syndicate managers are careful not to get too carried away.

They note that the recent spate of offerings, and the prospect of some more large deals in the pipeline, has prompted some concern of oversupply in the primary market.

Furthermore, the syndicate managers report that investors have been switching out of the Swiss bond market and into other higher-yielding markets elsewhere in Europe.

Antonia Sharpe

Swiss generic 10-year Eurobond yield



Source: IBS

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
US DOLLARS							
Trans Cosmos(a)ф	100	Aug.1997	1.5	100	-	-	Nikko Europe
Continental Bank Corp.(g)‡	50	Aug.1998	(g)	99.75	-	-	Merrill Lynch Intl.
Crediop Overseas Bank‡	150	Sep.1998	(l)	99.78R	-	-	Salomon Brothers Intl.
EQK Green Acres Funding(m)‡	118	Aug.1998	(m)	99.9R	-	-	Goldman Sachs Intl.
General Electric Capital Corp.	150	Aug.2003	6.375	99.7R	6.407	+56 (5¾%-03)	Kidder Peabody Intl.
D-MARKS							
Deutsche Finance (Neths.)	1bn	Sep.1997	6	101.75	5.501	-	Deutsche Bank
Commerzbank O'seas Finance	500	Sep.1998	6	101.2	5.717	-	Commerzbank
Bayernhypo Finance, Neths.	500	Sep.1998	6	101.1	5.741	-	Bayerische Hypobank
Trinkaus & Burkhardt Finance	150	May.2000	6.25	101.875	-	-	Trinkaus & Burkhardt
STERLING							
First 2, senior notes(f)‡	170	Jul.2005	(f)	99.83R	-	-	Baring Brothers & Co.
Daily Mail & General Trust(h)§	50	Sep.2003	5.75#	100	-	-	CSFB
FRENCH FRANCS							
Crédit Foncier de France(i)	750	Jul.2003	6.75	101.25R	6.570	+26 (8¾%-03)	CCF/ SBC France
Eurofima	400	Oct.1994	6.4	100.7R	5.880	-	CCF
YEN							
Crediop O'seas Bank(Cayman)‡	10bn	Aug.1996	(d)	100R	-	-	Nomura International
CCF (Luxembourg)(j)‡	5bn	Dec.1998	(j)	100.25R	-	-	Mitsubishi Finance Intl.
Tokai Finance (Curaçao)(n)‡	60bn	(n)	(n)	100	-	-	Nikko Europe
Mitsui & Co. (USA)	5bn	Dec.1998	3.9	100.39R	-	-	Sakura Finance Intl.
Itochu Corp., Series 2(r)	5bn	Dec.1997	3.55	100.25R	3.48	-	DKB International
Itochu Corp., Series 3	5bn	Dec.1997	4.35	100.25R	4.28	-	DKB International
CANADIAN DOLLARS							
Sth.Australian Govt.Fin.Auth.	100	Oct.2003	7.375	98.6R	7.580	+50 (7¼%-03)	Hambros Bank
Sth.Aust.Govt.Fin.Auth.(s)	25	Oct.2003	7.375	97.825R	7.725	+48 (7¼%-03)	Hambros Bank
ITALIAN LIRA							
Abbey Natl.Treasury Servs.(k)	50bn	Aug.2000	10	104.175	-	-	JP Morgan
ECUS							
Kingdom of Sweden(o)	100	Jun.2000	7.25	104.55R	6.402	-33 (9½%-00)	M.Stanley/Swiss Bk.Corp.
General Electric Capl.Corp.(s)	200	Aug.2000	6.375	99.45R	6.475	-26 (9½%-00)	Goldman Sachs Intl.
AUSTRALIAN DOLLARS							
Primary Ind.Bank of Australia	50	Sep.1998	7	101.25	6.686	-	Hambros Bank
DANISH KRONER							
Finance for Danish Industry	300	Sep.1998	6.625	100.395R	6.530	-	Chemical Inv'ment Bank
Oeresundsforbindelsen	500	Sep.1998	6.5	102.05	6.013	-	Den Danske Bank
Kommunekredit	500	Sep.1998	6.5	100.458R	6.391	-	Morgan Stanley Intl.
HONG KONG DOLLARS							
Intl. Finance Corp.(p)	750	Sep.2000	6.555#	100.37R	6.488	-	Sanwa Intl. HK/ Wardley
SWISS FRANCS							
Sakurada Co.(b)+ф	40	Aug.1997	1	100	-	-	Yamaichi Bank (Switz.)
Deutsche Finance(Neths)(c)+ф	250	Sep.2001	2.5	100.5	-	-	Deutsche Bank (Suisse)
Aderans Co.(e)+ф	70	Aug.1997	0.875	100	-	-	Nikko Bank (Switz.)
Abbey Natl.Treasury Services+	150	Sep.1996	4.5	101.75	3.871	-	Credit Suisse
Kingdom of Denmark	1bn	Sep.1999	4.25	101.8	3.908	-	UBS
World Bank+	300	Sep.2000	4.25	102	3.918	-	UBS
ABB Intl. Finance+	100	Sep.1996	4.375	101.7	3.765	-	Credit Suisse

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. +Private placement. §Convertible. фWith equity warrants. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price. a) Denom.: $10,000 + 2 warrants. Exercise price: Y3838. FX: 105.6Y/$. b) Denom.: SFr50,000 + 50 warrants. Exercise price: Y974. FX: 70.4Y/SFr. c) Denom.: SFr50,000 + 166 warrants. 4 warrants exercisable into 1 Deutsche Bank ordinary share at DM778.75. d) Coupon pays 3-month Libor + 0.4%. e) Denom.: SFr50,000 + 50 warrants. Exercise price: Y2286.3, on 0.2 for 1 stock split. FX: 68.55Y/SFr. f) Coupon pays 3-month Libor + 0.5% until July 1998 and + 1% thereafter. Callable in July 1998 and annually thereafter at par. Average life 3.97 years. Mezzanine notes of £20m were also issued with undisclosed terms. g) Issue launched on 20/7/93 was increased to $200m. Coupon pays 3-month Libor + 0.5%. Callable at par on interest payment dates from August 1995. h) Exchangeable into Reuters Holdings ordinary shares at £18.18. Callable from 9/10/98 at par or earlier if 85% of the bonds are converted. i) Fungible with the outstanding FFr3bn. Plus 55 days accrued interest. j) Coupon pays 6-month Libor - 0.38%; minimum 4% for 2 years and 3 months, maximum 6%. Short 3 month 1st coupon pays 3-month Libor - 0.39%. k) Issue launched on 30/7/93 was increased to L200bn. Callable at par on coupon payment dates from 24/6/95. l) Coupon pays 6-month Libor + 0.4%. m) Secured by 1st mortgage on shopping mall in New York. Coupon pays 3-month Libor + 0.78%. Callable on any interest payment date at par. Fees undisclosed. n) Undated subordinated issue. Coupon pays the long-term prime rate - 0.15% for years 1 - 5, + 0.1% for years 6 - 10 and + 0.6% thereafter. Callable on coupon dates from August 1998 at par. Fees undisclosed. o) Fungible with the outstanding Ecu500m. Plus 57 days accrued interest. Launch spread relates to the French OAT. p) Domestic deal. q) Puttable on 1/12/95 at par. r) Issue launched on 11/8/93 was increased to C$125m. s) Launch spread relates to the French OAT. Note: Yields are calculated on ISMA basis.

RISK AND REWARD

Spate of call-warrant issues as gold loses some of its lustre

The decline in the price of gold in recent weeks has coincided with a spate of issues of gold warrants by banks. Most have been call warrants, allowing holders to buy gold at a predetermined price. Essentially, call warrants are attractive to investors with a bullish view on the gold market.

Deutsche Bank, Swiss Bank Corporation, Union Bank of Switzerland and Credit Suisse Financial Products are among the houses to have issued one or more series of warrants in the past two weeks.

So why has heavy issuance of warrants coincided with the market's decline, after the price of gold rallied from around $330 at the start of the year to just over $400 at the beginning of this month? And why has it come at a time when most analysts have decided that inflation, against which gold is often used as a hedge, is less of a problem than they had thought?

The cynical answer is that the banks which issued (or wrote) the warrants felt that the rally was over and they stood to earn handsome returns by writing warrants without hedging their positions.

However, there does seem to be demand for the warrants, both among continental European retail investors and some institutions.

Investors tend to buy warrants – which are essentially long-dated options – when they are less sure of their view on the market. An investor holding a call warrant stands to lose the cost of the warrant – or premium – if the market moves the wrong way, but an outright purchase of gold leaves an investor with potentially unlimited exposure if the market collapses.

Consequently, for investors who still believe gold could rally further, but are not firmly convinced, warrants offer an attractive alternative. They also allow investors to take a view on the market using only a small investment and maximising the amount of leverage.

One analyst said that some investors with bond portfolios had bought gold warrants as a hedge against inflation. There is a growing wave of opinion that inflation in the most developed economies is likely to remain low, and many investors have positioned themselves by taking large positions in the bond market. However, a hedge against inflation could prove a useful insurance policy if their expectations are disappointed.

Institutions may prefer to buy over-the-counter options on gold, rather than warrants, because OTC options can be structured to suit their needs. But the advantage of warrants is that they can be traded, since the banks that issue them are committed to making a market.

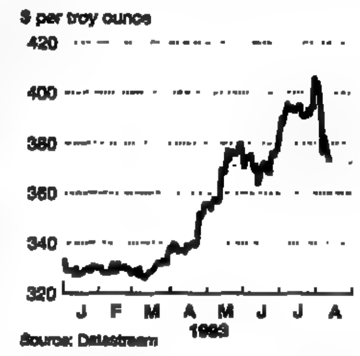
Gold warrants can therefore be an attractive tool for taking a speculative position that the gold market will rally. A number of analysts are still quite positive on the prospects for gold. "Our view is that this pullback is a bit greater than we would have thought, but it is not unexpected," said Mr Michael Coulson, at Crédit Lyonnais.

There are still reasons to believe that the market's potential is capped by factors such as potential selling by central banks, which need to shore up their foreign exchange reserves. Further, the inflation potential of OECD countries is indeed restrained.

But gold is one of the most international markets, and active buyers can be found in countries where there are substantial fears about the inflationary outlook. In OECD countries, some analysts believe low interest rates will encourage investment in commodities, since investors are sacrificing only a small loss of income by buying gold.

Tracy Corrigan

Gold price



Source: Datastream

WORLD STOCK MARKETS

CANADA

TORONTO

4 pm close August 13

Quotations in cents unless marked $

MONTREAL

4 pm close August 13

INDICES

NEW YORK

DOW JONES	Aug 13	Aug 12	Aug 11	Aug 10	1993 HIGH	1993 LOW	Since compilation HIGH	Since compilation LOW
Industrials	[illegible]	[illegible]	[illegible]	3572.73	3583.35 (11/8)	3241.95 (20/1)	3583.35 (11/8/93)	41.22 (2/7/32)
Home Bonds	108.66	108.49	108.64	108.66	108.66 (10/8)	103.49 (11/1)	108.66 (10/8/93)	54.99 (1/10/81)
Transport	1618.04	1617.87	1620.61	1630.27	1683.05 (16/4)	1453.64 (4/1)	1683.05 (16/4/93)	12.32 (8/7/32)
Utilities	250.73	250.20	251.05	250.00	252.04 (5/8)	217.74 (8/1)	252.04 (5/8/93)	10.50 (8/4/32)

DJ Ind. Day's High 3594.52 (3607.66) Low 3547.56 (3537.24) (Theoretical)♦
Day's High 3576.36 (3590.98) Low 3563.51 (3552.33) (Actual)♦

STANDARD AND POOR'S

	Aug 13	Aug 12	Aug 11	Aug 10	1993 HIGH	1993 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	450.14	448.96	450.46	449.82	456.33 (10/3)	429.05 (8/1)	456.33 (10/3/93)	4.40 (1/6/32)
Industrials♥	508.04	506.38	508.63	507.22	524.99 (10/3)	496.45 (26/4)	524.39 (10/3/93)	3.62 (21/6/33)
Financial	46.88	46.89	46.84	46.65	46.89 (12/8)	39.89 (8/1)	46.89 (12/8/93)	8.64 (1/10/74)
NYSE Composite	249.70	249.17	249.89	249.83	251.36 (10/3)	236.21 (8/1)	251.36 (10/3/93)	4.46 (25/4/42)
Amex Mkt. Value	438.06	437.56	438.87	438.19	440.95 (4/6)	395.84 (8/1)	440.95 (4/6/93)	20.31 (9/12/72)
NASDAQ Composite	718.26	717.12	718.77	717.08	718.77 (11/8)	645.87 (26/4)	718.77 (11/8/93)	54.87 (31/10/72)

	Aug 6	Jul 30	Jul 23	year ago (approx.)
Dow Industrial Div. Yield	2.87	2.88	2.93	3.02

	Aug 11	Aug 4	Jul 28	year ago (approx.)
S & P Industrial div. yield	2.62	2.53	2.56	2.66
S & P Ind. P/E ratio	26.14	25.98	26.08	25.56

NEW YORK ACTIVE STOCKS

TRADING ACTIVITY

CANADA TORONTO

	Aug 13	Aug 12	Aug 11	Aug 10	1993 HIGH	1993 LOW
Metals & Minerals	3123.18	3128.24	3123.88	3118.83	3178.24 (12/8)	2743.31 (21/1)
Composite	4014.82	4008.00	4015.80	4028.44	4028.44 (10/8)	3275.80 (21/1)
MONTREAL Portfolio	1912.58	1909.01	1919.40	1921.50	1939.10 (25/8)	1720.97 (21/1)

Base values of all indices are 100 except NYSE All Common - 50; Standard and Poor's - 10; and Toronto Composite and Metals - 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable. ♦ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

	Aug 13	Aug 12	Aug 11	Aug 10	1993 HIGH	1993 LOW
TAIWAN** Weighted Price (30/6/66)	4122.12	4140.75	4115.04	4085.31	5013.28 (7/4)	3098.45 (9/1)
THAILAND Bangkok SET (30/4/75)	964.82	(c)	963.17	965.09	980.44 (28/1)	818.84 (1/6)
WORLD M.S. Capital Intl.(1/1/70) $	590.7*	589.1	588.1	583.7	590.70 (13/8)	488.80 (13/1)
Euro Top-100 (26/6/90)	1105.53	1105.36	1099.46	1091.35	1105.53 (13/8)	882.73 (13/1)

**Saturday August 7: Taiwan Weighted Price: 4039.64, Korea Comp Ex: 716.65.
♥ Subject to official recalculation. *Calculated at 15.00 GMT.

Base values of all indices are 100 except Austria Traded, BEL20, HEX Gen., MIB Gen., CAC40, Euro Top-100, ISEQ Overall and DAX - 1,000, JSE Gold - 255.7, JSE 25 Industrials - 264.3 and Australia All Ordinary and Mining - 500: (c) Closed, (u) Unavailable

TOKYO - Most Active Stocks

Friday, August 12, 1993

	Stocks Traded	Closing Prices	Change on day
Nippon Steel	14.2m	385	+3
Itochu Corp	13.0m	824	+14
Fujitsu Ltd	10.9m	796	+18
Cosmo Oil	8.6m	939	+12
Nikko Kyodo Co	8.6m	576	+15
Mitsui Co Ltd	7.4m	800	[illegible]
Sumitomo Mtl Ind	6.8m	364	+6
Kawasaki Steel	6.6m	378	+3
Mitsubishi Heavy	6.0m	713	+4
Mitsubishi Cable	5.4m	985	[illegible]

AUSTRIA — FRANCE — GERMANY (continued) — NETHERLANDS (continued) — SWEDEN (continued) — BELGIUM/LUXEMBOURG — DENMARK — FINLAND — ITALY — NORWAY — SPAIN — SWITZERLAND — SOUTH AFRICA — NETHERLANDS — JAPAN — HONG KONG — AUSTRALIA — MALAYSIA — SINGAPORE

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AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

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	Init Chrge	Canc Price	Bid Price	Offer Price	Yield Gr's	City-Line
State Street Unit Trust Mngmt Ltd (1400)F						
28 King Street, London SW1 6QW 071-344 7000						
Global A	5¼	3.578	3.716	3.848	1.21	4540
US Equities (u)	5¼	2.178	2.178	2.312	1.15	[illegible]
Far East Equities (u)	5¼	[illegible]	245.4	262.2	-	[illegible]
Japan Equities (u)	5¼	[illegible]	251.5	267.2	-	[illegible]
FT Europe (u)	5¼	117.3	117.4	124.6	2.09	[illegible]
FT North American (u)	5¼	$1.719	1.719	1.828	1.31	[illegible]
FT Japan (u)	5¼	[illegible]	250.7	268.1	-	[illegible]
FT Asia Ex Japan (u)	5¼	$1.988	1.986	2.108	1.45	[illegible]
Stewart Ivory Unit Tst Mgrs Ltd (1200)H						
45 Charlotte Sq, Edinburgh 031-226 3271						
American	5	353.7	353.7	377.0	0.32	4140
(Accum Units)	5	417.8	417.8	444.8	0.32	4141
British	5	987.2	987.2	1044.8	3.88	4146
(Accum Units)	5	1730.8	1730.8	1831.0	3.89	4147
Emerging Markets	5	113.0	113.8	121.2	0.20	[illegible]
(Accum Units)	5	113.2	114.0	121.4	0.20	[illegible]
European	5	406.8	406.8	433.0	1.33	[illegible]
(Accum Units)	5	446.7	446.7	478.4	1.33	[illegible]
Japan	5	164.4	164.4	174.5	-	[illegible]
(Accum Units)	5	165.7	165.7	175.9	-	[illegible]
New Pacific	5	319.7	321.7	342.6	0.95	[illegible]
(Accum Units)	5	335.0	337.1	359.0	0.95	[illegible]
Investment Tst	5	203.8	205.0	218.4	1.83	[illegible]
(Accum Units)	5	227.4	228.9	243.7	1.83	[illegible]
Mngd Equity	5	169.4	161.1	170.4	1.47	[illegible]
Mngd Equity Acc	5	174.7	176.6	186.8	1.47	[illegible]
Mngd Cash	0	95.77	95.77	95.77	5.17	[illegible]
(Accum Units)	0	128.6	128.6	128.6	5.17	[illegible]
Majority Stg	1	99.97	99.97	100.87	4.84	[illegible]
Majority Stg Acc	1	118.66	118.66	119.85	4.84	[illegible]
Sun Alliance Unit Tst Mngmt Ltd (1200)F						
Admin: 5 Rayleigh Rd, Hutton, Brentwood, Essex						
Enquiries 0277 227300 Dealing 0277 690090						
Equity	6	760.0	760.0	812.8	2.83	[illegible]
North America	6	121.6	121.6	130.1	0.21	[illegible]
Far East	6	136.3	136.3	145.8	0.43	[illegible]
W'wide Bond	6	63.51	63.69	67.80	5.15	[illegible]

	Bid Price	Offer Price	Yield Gross	City-Line
Lazard Investors Ltd ‡				
Exempt Funds				
Small Co's Aug 11	£5297.5	5405.20	2.43	40768
European Aug 11	£740.8	768.2	1.45	40770
American Aug 11	£444.7	448.8	1.44	40773
Japan Aug 11	£638.6	646.6	0.47	40774
Pacific Aug 11	£205.5	209.0	0.93	40775
Midland Gth Jul 30	£128.60	140.70	3.71	40771
Local Authorities Mutual Invest. Tst.*				
2 Fore Street, London EC2Y 5AQ 071-588 1815				
Property Jul 31	178.50	182.15	8.74	40825
Equity Jul 31	1042.10	1056.78	2.94	40826
* Available only to Local Authorities				
M & G Securities Ltd				
Charibond (z)	116.43		8.28	40893
(Accum Units)	817.87		8.36	40894
NAACIF (z)	48.20		7.16	40917
Martin Jupiter Unit Trust Managers Ltd				
Martin Jupiter Exempt Trust				
UK Equity	£12.51	12.73	-	43453
Morgan Grenfell Investment Funds Ltd				
Exempt Funds				
UK Equity † Aug 10	174.9	178.3	2.46	46925
UK Small Co † Aug 10	611.3	637.0	2.97	46926
Fixed Interest † Aug 10	128.3	129.2	8.81	46920
Ind Bond Aug 10	146.6	150.1	7.63	47760
Morgan Stanley International				
UK Exempt NAV	£1408.80		-	44575
Overseas Exempt NAV	£1380.75		-	44576
Murray Johnstone UT Mngmt				
Murray Exempt Funds				
American Exempt	65.66	68.21	1.32	41084
European Exempt	[illegible]	60.19	2.00	41085
Fixed Int Ex Aug 12	53.14	51.68	7.61	46584

INSURANCES

OTHER UK UNIT TRUSTS

	Bid Price	Offer Price	Yield Gross	City-Line
Allied Dunbar Assurance Plc - Contd.				
Pension Funds				
F.I.Dep.Acc.	768.7	810.5	-	41736
Prop. Acc.	1088.8	1147.2	-	41738
Man. Acc.	2439.2	2567.6	-	41740
Gilt Edg. Acc.	806.2	848.7	-	41742
Eq. Acc	3044.0	3204.3	-	41744
Am. Eq Acc	330.3	347.7	-	41746
Far East Acc	419.9	442.1	-	41748
Euro. Acc.	50.3	53.0	-	41750
American Life Insurance Co UK				
2-8 Altyre Road, Croydon CR9 2LA 081-680 6000				
Barclays Life Assur. Co Ltd				
252 Romford Road, London E7				

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Prudential Assurance Co

Prudential Corporate Pension Funds

Prudential Individual Life Funds

Prudential Individual Pension Funds

Reliance Mutual

J Rothschild Assurance PLC

Royal Heritage Life Assurance Ltd

Royal Life Insurance Ltd

Royal Liver Assurance

Save & Prosper Group (z)

Scottish Amicable

Scottish Amicable - Contd.

Scottish Equitable Life Assce. Soc.

Scottish Life Investments

Scottish Mutual Assurance plc

Scottish Provident Institution

Scottish Widows' Group

Standard Life Assurance Company

Sun Alliance Group

Sun Alliance Group - Contd.

Sun Life Unit Assurance Ltd

Swiss Life (UK) PLC

TSB Life Ltd

Teachers' Assurance Company Ltd

Templeton Life Assurance Limited

Tunbridge Wells Equitable

Wesleyan Assurance Society

Windsor Life Assur Co Ltd

Woolwich Life Assurance Co Ltd

Zurich Life Assurance Co Ltd

OFFSHORE INSURANCES

AXA Equity & Law Intl Life Assce Co

Albany International Assurance Ltd

CMI Insurance Co Ltd

Century Life International Ltd

Eagle Star Intl Life

Equitable Life (International)

Finance International Ltd

Isle of Man Assurance Ltd

Lifeman International Ltd

Providence Capital International Ltd

Royal Life Intl. Ltd

Royal Skandia Life Assurance Ltd (z)

Scottish Provident Intl Life Assurance Ltd

Sun Alliance International Life

Target International Group

MANAGEMENT SERVICES

Capital Trust Financial Management

Chase de Vere PLC

ECU Terminvest PLC

Fairmount Financial Services Ltd

Foster & Braithwaite Ltd

Hurstminster Financial Services(Pty) Ltd

IPS Capital Management PLC

Johnson Fry Asset Managers Plc

Knight Williams & Company Ltd

Macartney & Dowie Invest Mgt Plc

Roxborough Financial Management Ltd

Charles Stanley & Co Ltd

United Financial Corporation Ltd

J. D. Ward Financial Services Ltd

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Money Funds

Lloyd George Management

Newport Investment Management

Orion Fund Limited

CANADA (SIB RECOGNISED)

GBC Asset Management

GUERNSEY (SIB RECOGNISED)

AIB Grofund Inv Managers (Guernsey) Ltd

Baring Intl Fd Managers (Guernsey) Ltd

Butterfield Fund Mngrs (Guernsey) Ltd

Guinness Flight Fd Mngrs (Guernsey) Ltd

Hambros Fd Mgrs (CI) Ltd

Kleinwort Benson Intl Fd Mngrs Ltd

Lazard Fund Mngrs (Channel Islands) Ltd

Lion World Fixed Income Fund

Lloyds Intl Money Market Fund Ltd

M & G (Guernsey) Ltd

Prudential Fund Managers (Guernsey) Ltd

Rothschild Asset Management (CI) Ltd

Royal Bank of Canada Offshore Fd Mgrs Ltd

Sarasin Funds Mngmt (Guernsey) Ltd

Schroder Investment Mngmt (Guernsey) Ltd

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

Arab Bank Fund Managers (Guernsey) Ltd

Bachmann Global Investment Fund Ltd

CIBC Fund Managers (Guernsey) Ltd

Credit Suisse Fund Mgmt (Guernsey) Ltd

Guernsey Capital Management Limited

Hambros Fund Managers (CI) Ltd

Hendersons Admin. (Guernsey)

Investment Portfolio Svs (CI) Ltd

Kleinwort Benson Intl Fd Mngrs Ltd

Lazard Fund Managers (CI) Ltd

Merrill Lynch Guernsey

Nikko Capital Mngt (Europe) Ltd

OUB Ltd

Rothschild Asset Mngmt (CI) Ltd

Saudi International (Guernsey) Ltd

Schroder Investment Mngmt (Guernsey) Ltd

U.S. Treasury Securities Fund Ltd

Rudolf Wolff Capital Management Ltd

Yamaichi Capital Mangmt (Guernsey) Ltd

IRELAND (SIB RECOGNISED)

Coutts & Co Fund Managers Limited

Dresdner Intl Management Services Ltd

Federated International Funds Plc

GAM Fund Management Ltd

GT Asset Management (Ireland) Ltd

Morgan Grenfell Investment Funds Ltd

Pacific Investment Fund Plc

Singer & Friedlander Inv Funds Ltd

Swiss Life Investment Fund

IRELAND (REGULATED)(**)

BT Fund Managers (Ireland) Ltd

Bank of Ireland Unit Managers (Ireland)

Baring International Fd Mngrs (Ireland) Ltd

Baring Mutual Fund Managers (Ireland) Ltd

Govett Portfolio Managers Limited

Hambros Fund Managers (Ireland) Ltd

Morgan Grenfell Fd Mgrs (Ireland) Ltd

Morgan Grenfell Prefunds Plc

Old Mutual International Ltd

Paine Webber Offshore Funds Plc (a)

J. Rothschild International Assce plc

J. Rothschild International Assce plc - Contd.

Sanwa International (Ireland) Plc

Ulster Bank Investment Services

Yellow Sea Investment Company PLC

ISLE OF MAN (SIB RECOGNISED)

AXA Equity & Law Intl Fund Mngrs

Allied Dunbar Intl Fund Mgrs (1000)F

Asset Global Funds Ltd (1200)

CMI Fund Mngrs (IoM) Ltd

Gartmore Fund Managers (IoM)

Leopold Joseph Fund Mngrs (IoM) Ltd

Mercury Fund Managers (IoM) Ltd

Sun Life Fund Management (IoM) Ltd

Unibank Scandinavian Fund Ltd

ISLE OF MAN (REGULATED)(**)

ATC Fund Management (IoM) Ltd

AXA Equity & Law Intl Fund Mgrs

Appleton Financial Advisors Ltd

City Financial Admin (IoM) Ltd

Duncan Lawrie Inv. Mgt. Ltd

Gartmore Fund Managers (IoM)

John Govett Management (IoM) Ltd

IBI Managers (IoM) Ltd

R & H Fund Managers Ltd

JERSEY (SIB RECOGNISED)

AIB Fund Managers (CI) Ltd

Barclays International Funds

Capital House Fund Mgrs (CI) Ltd

Coutts & Co (Jersey) Fund Managers Ltd

Gartmore Fund Managers International Ltd

John Govett (Channel Islands) Ltd (1000)F

Hill Samuel Fund Mgrs (Jsy) Ltd (1000)F

Lloyds Bank (CI) U/T Mgrs.

Midland Bank Fund Managers (Jersey) Ltd

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Prudential Fund Managers (Jersey) Ltd

Royal Trust Jsy Fd Mngt Ltd (1400)F

Standard Bank Fund Mngmt (Jersey) Ltd

TSB Trust Funds (CI)

JERSEY (REGULATED)(**)

Barclays Intl Funds

Cater Allen Investment Management (CI)

LUXEMBOURG (SIB RECOGNISED)

Barclays Inv Funds (Luxembourg)

CMI Asset Management (Luxembourg) SA

Commercial Union Luxembourg SA (z)

Latin American Securities Ltd (x)

Liberty ALL-STAR World Pfolio-Eqty Fd(x)

Lloyds Bank Luxembourg

Midland International Circuit Fund SICAV(x)

LUXEMBOURG (REGULATED)(**)

Credit Lyonnais Rouse (Bermuda) Ltd

Credit Suisse

Rosenberg US Japan Mngmt Co SA (u)

Edmond de Rothschild Group

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

Citizens Investment Trust Mgt Co Ltd

Consenght Investments Ltd (Hong Kong)

Indosuez Asia Invest Services Ltd

Pacific Growth Fund

Pakistan Fund

Pequot International Fund Inc

Philippine Income Fund Inc

Portuguese Investment Fund Ltd

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGE AND MONEY MARKETS

Focus on the franc

IN THE WAKE of the recent turmoil in the exchange rate mechanism, dealers will look for more pressure on the French franc and the Danish krone this week, *writes James Blitz.*

On Friday both currencies were subjected to a new bout of selling against the D-Mark, with the French currency dropping to its lowest London close against the D-Mark. The Danish krone also fell sharply, ending more than 8.5 percentage points lower than the D-Mark in the ERM grid.

UK clearing bank base lending rate 6 per cent from January 26, 1993

Many currency dealers are certain the franc is heading for the FFr3.60 level against the D-Mark. The big question is whether it will get there sooner rather than later.

Dealers will wait to see what the Bank of France does to interest rate policy in its money market operations today and on Thursday. The country's industrial production figures for June, due out the same day, could also depress the franc if they are particularly bad.

Dealers will also look closely at France's weekly foreign exchange reserve figures on Thursday to see whether the central bank has restored them since the widening of the ERM's fluctuation bands.

In Germany, the M3 money supply figures for July are due at the end of the week and these will indicate how big a monetary overhang there is after the Bundesbank's intervention in currency markets. Economists at Paribas Capital Markets anticipate a rise to 8.2 per cent from 7.0 per cent in June.

In the UK, attention will focus on prospects for another cut in interest rates. The Retail Prices Index, due on Wednesday, will reveal whether there are further inflationary pressures in the economy. The UK's visible trade figures, due on Friday, will indicate whether exports have been adversely affected by the pound's recent strength.

£ IN NEW YORK

Aug 13	Close	Previous Close
£ Spot	1.4590-1.4600	1.4658 1.4668
1 month	0.38-0.35pm	0.35 0.34pm
3 months	0.98-0.95pm	0.97 0.95pm
12 months	2.63-2.55pm	2.67 2.60pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

		Aug 13	Previous
8.30	am	80.4	80.8
9.00	am	80.4	80.9
10.00	am	80.4	80.9
11.00	am	80.4	80.9
Noon		80.5	80.7
1.00	pm	80.5	80.7
2.00	pm	80.4	80.6
3.00	pm	80.3	80.6
4.00	pm	80.0	80.3

CURRENCY MOVEMENTS

Aug 13	Bank of England Index	Morgan Guaranty Changes %
Sterling	80.0	-22.42
U.S. Dollar	66.1	-11.40
Canadian Dollar	92.0	-8.61
Austrian Schilling	114.1	+16.07
Belgian Franc	111.3	-2.09
Danish Krone	109.5	+4.86
D-Mark	124.0	+31.75

OTHER CURRENCIES

Aug 13	£	$
Argentina	1.4828 - 1.4840	0.9996 - 1.0006
Australia	2.1550 - 2.1585	1.4720 - 1.4730
Brazil	118.385 - 118.370	80.8510 - 80.8530
Finland	8.6595 - 8.6790	5.8900 - 5.9100
Greece	346.500 - 353.500	236.350 - 241.150
Hong Kong	11.3255 - 11.3380	7.7255 - 7.7265
Iran	2345.00 - 2355.00	1580.00 - 1590.00
Korea(Sth)	1175.40 - 1184.35	809.70 - 815.100
Kuwait	0.44020 - 0.44100	0.30130 - 0.30180
Luxembourg	53.30 - 53.40	36.55 - 36.65
Malaysia	3.7215 - 3.7295	2.5520 - 2.5530
Mexico	4.5590 - 4.5620	3.1140 - 3.1160

BASE LENDING RATES

	%		%		%
Adam & Company	6	Cyprus Popular Bank	6	NatWestminster	6
Allied Trust Bank	6	Duncan Lawrie	6	Nykredit Mortgage Bnk	6.5
AIB Bank	6	Equatorial Bank plc	6	●Rea Brothers	6
●Henry Ansbacher	6	Exeter Bank Limited	7	Roxburghe Bank Ltd	6
B & C Merchant Bank	13	Financial & Gen Bank	7	Royal Bk of Scotland	6
Bank of Baroda	6	●Robert Fleming & Co	6	●Smith & Williamson Secs	6
Banco Bilbao Vizcaya	6	Girobank	6	Standard Chartered	6
Bank of Cyprus	6	●Guinness Mahon	6	TSB	6
Bank of Ireland	6	Habib Bank AG Zurich	6	●United Bk of Kuwait	6
Bank of India	6	●Hambros Bank	6	Unity Trust Bank Plc	6
Bank of Scotland	6	Heritable & Gen Inv Bk	6	Western Trust	6
Barclays Bank	6	●Hill Samuel	6	Whiteaway Laidlaw	6
Brit Bk of Mid East	6	C. Hoare & Co	6	Wimbledon & Sth West	7
●Brown Shipley	6	Hongkong & Shanghai	6	Yorkshire Bank	6
CL Bank Nederland	6	Julian Hodge Bank	6		
Citibank NA	6	●Leopold Joseph & Sons	6		
City Merchants Bank	6	Lloyds Bank	6		
Clydesdale Bank	6	Meghraj Bank Ltd	6		
The Co-operative Bank	6	McDonnell Douglas Bk	6		
Coutts & Co	6	Midland Bank	6		
Credit Lyonnais	6	Mount Banking	6		

● Members of British Merchant Banking & Securities Houses Association

STOCK INDICES

	Aug 13	Aug 12	Aug 11	Aug 10	Aug 9	Aug 6	1993 High	1993 Low	Since Compilation High	Since Compilation Low
FT-SE 100	3010.1	3009.1	3008.1	2971.6	2986.4	2969.8	3010.1	2737.6	3010.1	986.9
FT-SE Mid 250	3455.5	3451.9	3430.6	3406.8	3399.4	3392.8	3455.5	2878.3	3455.5	1379.4
FT-SE-A 350	1511.4	1510.8	1507.3	1491.6	1495.5	1489.4	1511.4	1348.7	1511.4	664.5
FT-A All-Share	1496.30	1495.38	1491.60	1476.85	1480.86	1473.92	1496.30	1088.13	1496.30	61.92
FT-SE Eurotrack 100	1276.24	1280.64	1274.70	1261.80	1269.95	1272.34	1280.64	1063.02	1280.64	930.46
FT-SE Eurotrack 200	1354.07	1359.88	1354.96	1348.51	1352.97	1348.44	1359.88	1144.70	1359.88	938.62
FT Ordinary	2360.7	2369.2	2379.1	2360.3	2374.5	2361.0	2379.1	2124.7	2379.1	49.4
FT Government Secs	101.93	101.71	101.93	101.05	100.63	100.39	101.93	93.28	127.40	49.18
FT Fixed Interest	122.86	122.56	122.31	121.63	121.44	121.16	122.86	108.67	122.86	50.53
FT Gold Mines	190.4	201.1	207.4	211.2	206.9	203.4	249.2	60.0	734.7	43.5

LONDON SHARE SERVICE

Continued on next page

LEGAL NOTICES

INSURANCE COMPANIES ACT 1982
Municipal Mutual Insurance Limited and Municipal General Insurance Limited
TRANSFER OF GENERAL BUSINESS

1. NOTICE IS HEREBY GIVEN that Municipal Mutual Insurance Limited and Municipal General Insurance Limited applied to the Secretary of State for Trade and Industry on 9th August 1993 for his approval, pursuant to section 51 of the Insurance Companies Act 1982, to transfer to Eagle Star Insurance Company Limited all their respective rights and obligations under buildings and buildings and/or contents policies written by them for Automobile Association Insurance Services Limited in the United Kingdom prior to the close of business on the 30th September 1992.

2. Copies of the Statement of Particulars of the proposed transfer are available for inspection at 25/27 Old Queen Street, Westminster, SW1H 9HN, Monday to Friday, from 9.00 am to 5.00 pm when particulars may be inspected until 19th September 1993.

3. Written representations concerning the transfer may be sent to the Secretary of State for Trade and Industry, Department of Trade and Industry, Insurance Division, 10-18 Victoria Street, London, SW1H 0NN before 19th October 1993. The Secretary of State will not determine the application until after considering any representations made to him before that date.

BUSINESSES FOR SALE Appear in the Financial Times on Tuesdays, Fridays and Saturdays. For further information or to advertise in this section please contact Karl Loynton on 071 873 4780 or Melaine Miles on 071 873 3308

Notice of Creditor's meeting under Section 48(2) Insolvency Act 1986
Company No. 1940063
Registered in England and Wales
MAYFIELD ENVIRONMENTAL SERVICES LIMITED
Principal place of business: Wallbrook Farm, Berkeley Road, Mayfield, East Sussex.
NOTICE IS HEREBY GIVEN pursuant to Section 48(2) Insolvency Act 1986, that a meeting of the unsecured creditors of the above-named company will be held at Orchard House, 30 Albion Place, Maidstone, Kent ME14 5DZ on 25 August 1993 at 10.30 am. Creditors whose claims are wholly secured are not entitled to attend or be represented at the meeting. Other creditors are only entitled to vote if: (a) They have delivered to us at the address shown below, no later than noon on 24 August 1993, written details of the debts they claim to be due to them from the company and the claim has been duly admitted under the provisions of Rule 3.11 of the Insolvency Rules 1986; and (b) There has been lodged with us any proxy which the creditor intends to be used on his or her behalf.
Dated: 6 August 1993
Signed N J Vooght and E M Sheer
Joint Administrative Receivers
Coopers & Lybrand
Orchard House
PO Box 262
30 Albion Place
Maidstone, Kent ME14 5DZ

AMERICANS

	Notes	Price £	Wk% ch'nge	Div gross	Dividends paid	Last xd	City line
Abbott Labs		15⅜xd	-3.2	60c	FeMyAuNv	12.7	1503
Allegheny & W	♥	700p	4.8	30c	–	–	–
Amdahl		350p	-1.1	5c	NvFeJeAu	31.1	–
Amer Cyanamid		32	-0.9	$1.75	MrJeSeDe	4.3	–
Amer Express		22¾xd	1.8	$1.00	FeMyAuNv	6.7	1594
Amer T & T		42⅝xd	0.9	$1.32	FeMyAuNv	25.6	1697
Ameritech		55⅞	0.8	$3.68	FeMyAuNv	28.3	–
BankAmerica		31⅞xd	5.0	$1.40	MrJeSeDe	10.5	1744
Bankers NY		54⅞xd	4.3	$3.12	ApJyOcJa	24.12	1745
Bell Atlantic		38⅝	3.3	$2.68	FeMyAuNv	4.7	–
BellSouth		38⅞	1.2	$2.76	FeMyAuNv	5.4	–
Bethlehem Steel	♥	9⅝xd	5.5	–	MrJeSeDe	9.2	1821
Bowater		1384pxd	3.4	60c	OcJaApJy	9.3	1884
CPC		28⅞xd	2.3	$1.28	JaApJyOc	25.8	2263
California Engy		1232p	–	–	–	–	–
Chase Manhattan		22⅞xd	6.3	$1.20	FeMyAuNv	27.7	2109
Chrysler		29⅞xd	2.4	60c	ApJyOcJa	15.6	2136
Citicorp		22⅞xd	–	–	–	23.10	2141
Colgate-Palm		32⅞xd	-2.1	$1.44	FeMyAuNv	21.7	2184
Cont'l Bank		1656p	3.5	60c	DeMrJeSe	31.5	–
Dana		38⅞xd	-.4	$1.60	MrJeSeDe	28.5	2306
Data General		355p	3.5	–	–	–	–
Decora Inds.	♥	113p	-1.7	–	–	–	–
Dun & Brad		40⅞	3.2	$2.44	MrJeSeDe	13.2	–
Eaton		30⅞	1.8	$1.20	FeMyAuNv	2.2	2410
Echlin		19⅝xd	3.1	70c	JaApJyOc	30.6	3046
FPL		25¼xd	1.2	$2.48	MrJeSeDe	25.5	–
Ford Motor		35⅞xd	1.6	$1.60	MrJeSeDe	28.7	3615
Gen Elect		66⅞xd	0.4	$2.52	JaApJyOc	3.8	2675
General Host	♥	572p	0.5	34c	–	13.12	–
Gillette		39⅛xd	3.8	84c	MrJeSeDe	28.7	2695
Hasbro		20⅞	–	24c	FeApJyNv	1.8	–
Honeywell		25⅞xd	5.5	88c	MrJeSeDe	25.5	2919
Houston Inds		30¾	-1.6	$3.08	MrJeSeDe	10.11	–
Ingersoll-Rand		24xd	4.3	70c	MrJeSeDe	14.5	2979
Lockheed		43⅞	4.5	$2.12	MrJeSeDe	15.2	–
Lowe's		2614p	5.5	32c	JaApJyOc	11.7	–
Malvy Technology		330p	61.0	–	–	–	–
Merrill Lynch		60⅞xd	4.2	$1.40	FeMyAuNv	30.4	3351
Morgan (JP)		49⅞xd	1.8	$2.40	JaApJyOc	16.8	3418
Morris (Philip)	♣	31⅞xd	0.9	$2.60	JaApJyOc	10.6	5161

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUILDING MATERIALS - Cont.

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

ELECTRICALS

ELECTRICITY

ELECTRONICS

ENGINEERING-AEROSPACE

ENGINEERING-GENERAL

ENGINEERING-GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

Net asset values supplied by NatWest Securities Limited as a guide only. See guide to London Share Service.

INVESTMENT COMPANIES

Net asset values supplied by NatWest Securities Limited as a guide only. See guide to London Share Service.

MEDIA

MERCHANT BANKS

METALS & METAL FORMING

MISCELLANEOUS

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OIL & GAS

OIL & GAS - Cont.

OTHER FINANCIAL

OTHER INDUSTRIALS

PACKAGING, PAPER & PRINTING

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

STORES

STORES - Cont.

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

MINES

MINES - Cont.

Europa Minls	39	-4.8	-	-	-	-	3427
Glencor Expl	11	---	-	-	-	-	-
Greenwich Res	14½	-1.7	-	-	-	-	2773
Hemlo Gold C$	6¾	1.5	020c	-	Dec Jan	8.11	-
Nornia West	42	-2.3	-	-	-	-	-
Kalis Minls	12	---	-	-	-	-	3741
Kimsaro	8¼	2.9	-	-	-	-	1453
Malinga Res.	8½	-15.0	-	-	-	-	-
Navan Res	57	-1.1	-	-	-	-	1186
5pc Ln Notes	57	0.6	-	-	-	-	-
Oryx Gold	78¾	---	-	-	-	-	3686
‡‡Ovoca Res	8	---	-	-	-	-	1470
RTZ	696	1.3	19.5	1.3	Dec Aug	7.5	3980

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- Figures or report awaited
- Not officially UK listed; dealings permitted under rule 535(4)(a)
- Free annual/interim report available, see details below.
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
- Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. f Flat yield. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Not subject to ACT. x Dividend includes a special payment: Cover does not apply to special payment. E Auction basis. F Dividend based on prospectus or other official estimates for 1994-95. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1993. K Dividend based on prospectus or other official estimates for 1992-93. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1993-94. N Dividend based on prospectus or other official estimates for 1992. P Figures based on prospectus or other official estimates for 1994. Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Celsis Intl and Court Cavendish (H & Hsehold), Govett Emrg Mkts Ord & Wts, Johnson Fry Utls & Zero Pf, Perpetual Japanese Inv Ord & Wts (Inv Trusts), Policy Portfolio (Other Fincl), Field Grp (Packg & Paper) and Eurotunnel Wts (Transport). Deletions: Drayton Eng & Intl (Inv Trusts) and TIP Europe (Transport).

FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Ring 081 643 7181 (open 24 hours including weekends) or fax 081 770 3822, quoting the code FT1343. [If calling from outside UK, dial +44 81 643 7181 or fax +44 81 770 3822] Reports will be sent the next working day, subject to availability. If faxing please remember to state the weekly changing FT code above and also your post code.

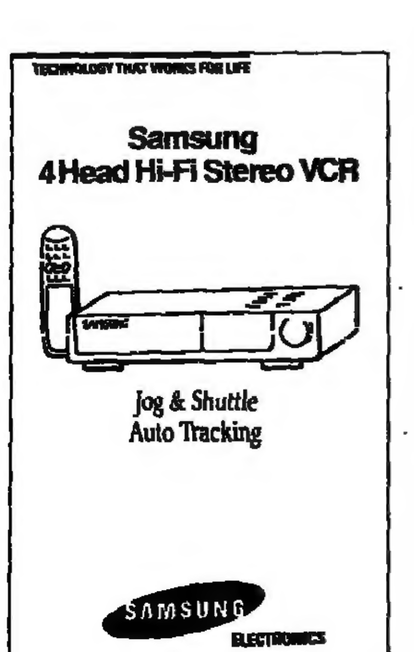
FT Cityline

For up-to-the-second share prices call FT Cityline on 0336 43 or 0891 43 followed by the four-digit code listed after the share price. Calls charged at 36p per minute cheap rate and 48p per minute at all other times.
An international service is available for callers outside the UK, annual subscription £250 stg.
Call 071-873 4378 (+44 71 873 4378, International) for more information on FT Cityline.

4 pm close August 13

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1993 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
14⅝	11½	AAR Corp	0.48	3.6	68	38	13½	13⅜	13⅜	-⅛
29⅞	13¾	A L Labs A	0.18	1.0	35	247	17⅝	17⅛	17⅝	+⅝
65⅞	54⅝	AMP Inc	1.60	2.5	22	1149	65⅛	64⅝	64¾	-⅛
72¾	55½	AMR			17	1798	65½	64⅝	65⅜	+½
2¾	1¾	ARX			15	23	2½	2⅜	2½	+⅛
51½	29⅞	ASA	2.00	4.5	29	605	44¾	43¾	44⅜	+½
30¼	22⅝	Abbott Lab	0.68	2.8	15	9025	24⅛	23⅝	23⅞	+½
12⅝	9½	AbitiBi Pr	0.50	5.1	4	6	9¾	9¾	9¾	+⅛
14¼	8¼	Acpincola			227	318	u14¾	14	14¼	+⅜
33	26½	ACE Ltd	0.40	1.2		930	32⅝	32¼	32⅜	
12	10¾	ACM Gvt In x	0.96	8.7		715	11⅛	11	11	
10	9⅛	ACM GrOpp x	0.80	8.1		128	u10	9⅞	9⅞	-⅛
9⅞	8¾	ACM Gvt Sp x	0.80	8.6		477	9¼	9	9¼	
11⅝	10½	ACM Gvt So	0.96	8.8		926	10⅞	10¾	10⅞	
11⅝	9⅝	ACM Man x	1.08	9.6		67	11⅜	11¼	11¼	-⅛
9⅞	8⅝	ACM Managd x	0.72	7.9		51	9¼	9⅛	9⅛	
12⅝	7¾	Acme Cleve	0.44	4.0	14	41	11¼	10⅞	10⅞	-⅛
9¼	6½	Acme Elect			241	7	7⅜	7¼	7¼	-¼
24⅞	18⅝	Acordia	0.44	1.7	14	103	u25¼	24⅞	25¼	+½
16	10¾	Acuson			33	180	12⅛	11⅞	12	
22¼	19⅝	Adams Expr	0.48	2.4	1	74	20⅛	19⅞	20	
66	45½	Ad Micro	3.00	4.8		322	62½	62	62⅜	+⅜
32¾	17⅞	Ad Micro P	3.00	9.8	12	4133	30¼	29¾	30¼	+¼
7¾	5½	Advest Grp	0.16	2.5	11	378	6⅝	6⅜	6½	
24¾	16⅛	Advo Inc	0.08	0.5	18	32	17	16½	17	+½
49⅜	41⅛	Aegon ADR	2.95	6.2	9	68	47⅜	47	47⅜	+⅜
60	43⅞	Aetna Lf	2.76	4.6	41	1263	59⅝	59⅛	59⅜	-⅛
14½	11½	AFB A	0.26	1.8	30	10887	14¼	14⅛	14¼	
32¼	26⅞	Aflac	0.40	1.3	15	612	31⅝	31	31¼	-⅜



Continued on next page

NYSE COMPOSITE PRICES

4 pm close August 13

Continued from previous page

NASDAQ NATIONAL MARKET

4 pm close August 13

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
ABWBrands	0.32	16	2750	19¾	18¼	18½	-⅜
ABS Inds	0.10	14	52	12½	11¾	12½	+½
ACC Corp	0.12	35	831	15½	14¾	14¾	
Acclaim E		46	3355	u35¾	35⅛	35½	-⅛
Acme Mills		125	61	16⅞	16½	16½	-¾
Acxiom Cp		30	330	18¼	18	18½	+¼
Adaptech		14	6427	30⅝	29¾	29⅞	-⅛
ADC Tele		30	1273	32½	31¾	32½	-⅜
Addington		45	126	17	16½	16⅞	+⅛
Adia Serv	0.16	19	757	26¼	24½	25	+½
Adobe Sys	0.20	27	9309	28	26¼	27	-½
Advance C		8	580	10⅛	9⅞	9⅞	-⅛
Adv Logic		4	20	3¼	3	3	
Adv Polym		14	75	6½	6⅛	6⅛	-⅛
AdvTchLab		29	222	17¼	17	17	
Advanta	0.25	20	158	53¾	52¾	53	-¼
Affymax		14	2521	13	12¼	12¾	+½
Agency Re		14	516	u9½	8¾	9	+¼
AgnicoEa	0.10	50	2062	10	9⅛	10	+⅝
Akzo ADR	2.60	16	400	u45½	44⅝	45⅜	+¾
Aldus Co		63	234	17	16¼	16½	-¼
Alex Bald x	0.88	15	1181	25¾	25	25¼	
Allegh &W		16	118	10½	10¼	10⅜	+⅛
Allen Org	0.48	14	36	30¾	29¾	30	
Alan Ph		10	809	13½	13	13¼	-⅛
AlldCapII	1.00	14	72	16¼	d15½	16¼	+¼
Allo Cap	0.80	11	97	13¾	d13	13	-⅛
Aloette C	0.32	16	5	6½	5⅞	6½	
Alta Gold	0.06	3	422	1 11/16	1⅞	1⅝	
Altera Co		50	1473	26⅞	25⅝	26¼	-⅛
Am Bankr	0.68	10	60	26¼	26⅛	26¼	

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Datascope		14	711	14	12½	14	+1½
DauphnDp	0.80	12	133	25½	24¾	25⅛	-⅜
Deb Shops	0.20	19	15	6⅝	6½	6½	
Dekalb En	0.22	107	34	16½	15¾	16½	-¼
Dekalb Ge	0.80	18	30	24	23	23⅛	-⅜
Delchamps	0.44	11	34	23¾	22¾	23	-⅞
Dell Comp		8	4450	20	19¼	19⅜	+¼
DeltaDSlm	0.16	23	509	20⅛	19	19⅛	-1
Dep Cty	0.86	10	40	30½	29½	30	
Devcon	0.20	11	10	8	6	7¾	
DH Tech		12	216	14½	14	14¼	
Dibrell B	0.72	9	89	24	23¼	24	
Dgi Intl		20	649	20¾	20	20¼	-¼
Dig Micro		18	462	12½	12	12	
Dig Sound		13	193	2	1¾	1⅞	-⅛
Dig Syst		290	283	4½	d3¾	4	+¼
Dionex Cp		15	1834	33	32	32¼	-¼
Dixie Yrn	0.20	14	152	11¼	10¾	10¾	-½
DNA Plant		5	700	5⅞	5¾	5¾	
Dollar Gn	0.20	25	1302	30¾	30¼	30½	-⅛
Dom Bkshs	0.44	55	961	u27¼	26⅝	27	
Dorch Htn	0.60	26	10	15½	14¾	14¾	
DressEngy		20	61	25	24¼	24¼	
DressBarn		13	2617	11⅞	11⅛	11¼	
Drey GD	0.24	22	59	27	26¼	26¼	-¾
Drug Empo	0.08	34	928	7	6⅝	6⅞	+⅛
DS Bancor	1.09	8	40	15	14½	14½	-¾
Duriron x	0.60	27	263	24	23¼	23⅝	-⅛
Durr Fill	0.30	24	8	u33⅛	32¾	32¾	
DynamcyCl		3	10	1¼	1	1¼	
Dynatech		12	643	25¾	25½	26	-¼

AMEX COMPOSITE PRICES

4 pm close August 13

Warriors in a war of words

Christopher Parkes chronicles the clashes between Volkswagen and GM

On January 1, *Ferdinand Piëch* was installed as chairman of Volkswagen. He already knew the approximate scale of the task ahead of him: losses had soared in the second half of 1992. The company was losing an estimated DM400 on every Golf it sold. Its six German works could break even only if operated at more than 100 per cent of capacity. As was to emerge later, full-year net earnings crashed almost 90 per cent to DM147m (£57.10m) on record sales of DM85.4bn.

As Dan Jones, the motor industry guru and co-author of The machine that changed the world, was to remark: VW needed a man like Piëch to put a bomb under the group.

The 56-year-old Austrian engineer had come eagerly to Wolfsburg, VW's headquarters in Lower Saxony, from the relative calm of the Audi quality car division in Ingoldstadt, Bavaria, where he had been chairman. The man who once boasted that he could drive the 120km winding route from *Ingoldstadt to Munich without* taking his foot off the accelerator, was pressing on the pedal *even before he had his hands* on the wheel.

In mid-November 1992, *through the good offices of* Bosch, Germany's biggest and most secretive vehicle components maker, *he met his "soul*mate", José Ignacio López de Arriortúa. Piëch's aim was to *lure Lopez away from his job* as vice-president in charge of procurement at General Motors *in Detroit and install him in* Wolfsburg.

López, an eccentric, visionary Basque engineer, had been given his GM job in May. He had been chosen by Jack Smith, GM president, to save the suffering automotive giant by applying his rigorous cost-reduction tactics through the agency of his troupe of so-called purchasing department "warriors".

López had earned his stripes - and his nickname "the Rüsselsheim strangler" - as head of purchasing at Adam Opel, the US group's German subsidiary. Thanks largely to him, Rüsselsheim-based Opel had become the most profitable car maker in the country.

Smith knew in December, *López says, that he had been* approached by VW. But then, as he did consistently through *the following months, the* Spaniard was to assure the group president and his top-level colleagues that he would not leave. As a trusted executive, he went about his business unhindered.

López earned his stripes – and his *nickname* 'the Rüsselsheim strangler' – at Adam Opel

When he quit abruptly on March 10 this year, suspicions mushroomed about his and his closest allies' activities in the interim, in which box-loads of secret and confidential data about most of GM's future European plans were allegedly systematically collected – only to disappear.

With hindsight, GM now suspects he may already have been working on VW's behalf as early as December 2 last year. On that day he asked for, and received 20 days later, GM Europe's so-called Epos list: computer-stored details of parts prices and suppliers, equivalent to up to 90,000 print-out sheets. According to Mr Hans Wilhelm Gäb, vice-president of GM Europe, they were of no use to him in his US-based job. Was the bomb already ticking?

In January, Piëch met López again, at least once this month, around the time of an extraordinary meeting of the VW supervisory board on Wednesday January 13.

January 13, Wolfsburg: the 20 men responsible for appointing and overseeing the conduct of VW top management learn the scale of Mr Piëch's plans. As "preliminary" measures, the group workforce is to be cut from 270,000 to 240,000 in the medium term, and an investment plan agreed the previous summer is torn up.

Jens Neumann, a close colleague of Piëch at Audi, and newly-appointed director in charge of group strategy, is given extra responsibilities for "group management develop*ment*". The board agrees to meet again on March 16 to review developments.

January 14, Detroit: López drafts a letter in Spanish, to be signed by Jack Smith, telling a Basque banking and construction consortium that a plan to build a super-lean production factory in López's homeland has been "put on ice" because of over-capacity in Europe and poor business conditions. López and his countrymen will *have to wait for the realisation* of his top-secret dream project, dubbed Plateau 6, on which he and a GM team have worked for 18 months.

January 15, Essen: López meets Neumann for the first time: object, to introduce the Basque to Klaus Liesen, chairman of Ruhrgas, head of the VW supervisory board, and the man whose blessing is needed to appoint a new director. Piëch, Neumann says, was prevented from attending.

February 3, Munich: TopBusiness magazine completes its March issue for printing. It contains an article on VW with pictures of new board members, including one of López, marked "NEW", "Production". The February issue of Manager Magazine, just out, earmarks López as successor to Daniel Goeudevert, *Piëch's deputy*. Negotiations have been going on "for weeks", it says.

February 3, Rüsselsheim: López attends a two-day meeting, called at his request, at *which he allegedly asks for* and is given details of GM Europe's purchasing, costs and *new models strategies.* During his visit he asks Dino Martinez, his personal assistant, to *clear his Opel office and send* all contents to Spain, care of Cirilo Uribe, a relation.

February 4, Frankfurt: López leaves Opel talks for a meeting with Neumann to discuss "pos*sible" employment contract* details. The GM executive, Neumann says, "leaves open" *the question of his joining* VW.

February 5, Eisenach: López, due to take Lufthansa flight *LH4586 at 08.45 to Zürich for* meetings at GM Europe, turns up unexpectedly at Opel's brand-new low-cost factory in former East Germany. He allegedly asks for and takes documents on the plant's low-cost production system.

February 6, Rüsselsheim: He telephones Wolfsburg. Neumann says between February 4 and March 9, the two spoke several times on contract details.

February 9, Rüsselsheim: Martinez ships the first batch of López office contents to Amorebieta, northern Spain.

Around this time, Jorgé Manuel Gutierrez, López's closest GM associate in Detroit, is allegedly collecting Opel data.

February 17, Detroit: Gutier*rez writes to Opel, asking for* internal files on the Corsa, Omega and Astra models and *the successor to the Vectra*, plus details on engines and production plants. He will collect them on February 23, when he is due to arrive in Frankfurt.

February 23, Hanover: Officials in the Lower Saxony economics ministry – in a position to speak since the state owns almost 20 per cent of VW and two government ministers sit on its supervisory board – say López is to join VW at the March 16 session of the supervisory board. Privately and publicly, López denies the reports. "I am happy here," he says from Detroit.

March 7, Detroit: Gathering of GM/Opel employees at Gutierrez's home discuss "rumours" that López is about to go.

March 8: Alleged start of three-week "recruiting" campaign said to be led by López, Gutierrez and colleague Rosario Piazza, in which about 40 GM/Opel managers are asked to join VW. Some of the people approached were offered double their current salaries.

March 8, Rüsselsheim: López at top-level Opel international strategy board meeting, allegedly given 2cm-thick wad of confidential documents on future strategies.

At this meeting he learns that Spain is no longer to get Plateau 6, "my dream plant". No final decision, but Hungary or Poland are more likely.

March 9, Frankfurt: López meets Neumann for second time. Neumann has a contract, signed on March 8 by Klaus Liesen. According to Neumann, the contract was wrongly dated March 5 *"because that was when the* meeting with Dr Liesen was originally planned".

Neumann reminds López that the March 16 supervisory board meeting is close. López accepts with an added proviso, that VW's life insurance on him should be effective immediately the contract is signed.

At 21.57, immediately after putting his name to the document, López calls Piëch "happy that he would soon be a member of the VW family", according to Neumann.

March 10, Rüsselsheim: López attends an Opel human resources *meeting. He collects* a binder of "internal" documents and asks Martinez to *send them to Spain. He then* flies to Detroit to inform Jack Smith.

March 12, Bloomfield Hills, near Detroit: Jack Smith, Harry *Pearce, GM's* top laywer, and Rick Wagoner, finance director visit López and plead with him to stay. VW formally announces López is changing sides.

March 12, Wolfsburg: Neumann receives call from an "emotionally shocked" López *at 05.30 Detroit time*, who allegedly says he will stick to his promise to come to VW.

March 13, *Wolfsburg*: at 11.00 (05.00 in Detroit) Neumann receives another call. Smith *and his wife have applied more* "emotional pressure", but López is resolute. "The word of *a Basque cannot be broken*," he tells Neumann.

At 16.00 (10.00 in the US) on the same day, Piëch *tells* Neumann to stay in close touch with the Spaniard.

Half an hour later, Neumann calls López, who tells him four GM board members just left his home. He has agreed not to leave the US group. He begs Piëch to forgive him. "He was a broken man," says Neumann.

But by 14.00 Detroit time, Piëch and López have agreed on a year's delay before he leaves GM for VW. The German group announces that he will not be coming "now", and blames interference from Smith.

March 13, Detroit: Late evening, at a social gathering López *dictates outline of a speech in* the late evening to Toni Simonetti, his PR aide. The speech is to be prepared for delivery at 13.00 on March 15, and will explain why he has chosen to stay in the US. According to her notes, read out recently in a court, VW had offered to implement his plan for the Plateau 6 factory in Spain. At GM there was now a "stronger commitment". López then instructed Simonetti not mention the plant in her draft.

Hans Wilhelm Gäb, vice president of GM Europe, described Piëch's attacks as 'grotesque'

March 15, Detroit: GM has tried to lock López in with a five-year contract. At 10.45 US time, as he put the finishing touches to his "I'm staying" speech, he calls Neumann, who notes he is "very unhappy". Within 15 minutes he has had a call from Piëch, who asks him to get on a aircraft. López leaves almost immediately with American Airlines.

March 16, Braunschweig airport: López is picked up and taken to a welcoming VW supervisory board meeting.

In Detroit, Harry Pearce orders a search of the lost executive's office. The office of Gutierrez, away on GM business, is also searched around this time. Gutierrez failed to return from his trip and next appeared in Wolfsburg.

March 17, Detroit: Alan Perriton, a GM purchasing executive who searched the offices, signs an affidavit that none of the secret and confidential document allegedly in the two executives' possession was to be found.

March 22, Detroit and Rüsselsheim: six of López's buying executives abruptly leave GM/Opel, citing "personal rea*sons*", and *turn* up at VW, according to López, without firm job offers or contracts.

Week *beginning* March 22, Wolfsburg: in VW's Rotehof guesthouse, at the suggestion *of López, his "warriors"* allegedly destroy his personal office contents – including possibly *secret or sensitive Opel mate*rial – to prevent, it is said, any such data finding its way into VW's possession.

March 25, Wolfsburg: Press statement says Werner Svetlik, procurement chief for the VW brand since January is to leave and will be replaced by Gutierrez on April 1.

April 2, Detroit: Harry Pearce writes to López, seeking unequivocal statement on missing documents. López finally replies about two weeks later that neither he nor his colleagues took any secrets when they left and nor did they have any now.

April 2, Frankfurt: A *regional court issues a tempo*rary injunction preventing VW from systematically recuiting Opel and GM staff.

Mid-April, Wiesbaden: Witnesses allegedly hear and see documents being shredded all night long by Jorgé Alvarez Aguirre and Rosario Piazza, two ex-Opel men who had followed their leader to VW.

April 30, Darmstadt: Opel asks public prosecutors to investigate its supsicions of theft and industrial espionage.

May 24, Hamburg: Der Spiegel publishes eight-page article: "A clear view into the guts" with detailed allegations of spying against López and his warriors.

May 24, Braunschweig: López reads out a statement: "What did I bring with me? My personal knowledge, motivation, a desire to make quantum leaps at VW – and no secret documents."

May 25, Darmstadt: Prosecutors, having examined Opel evidence, announce they have enough to launch a criminal investigation. Piëch tells FT López approached him first.

June 4, Hanover: VW supervisory board announces full confidence in López at annual meeting where Piëch says the group will return to profit in the second half after a DM1.25bn loss in the first quarter.

June 14, Hanover: López gives first press conference and says he lost all will to work at GM when he learnt his dream plant would not be built in his Basque homeland. In Madrid the same day, he reportedly claims it will be built instead by VW in 1996. He denies all allegations, and says he and Piëch were brought together by an intermediary.

June 22, Wiesbaden: Four boxes, allegedly left behind by *Alvarez and Piazza in their for*mer home, are handed to police and on to the investigating *prosecutors*.

July 2, Wolfsburg: Daniel Goeudevert, once favoured to run VW, resigns, but is tied in with a consultancy contract.

July 3, Darmstadt: Georg Nauth, prosecutors' spokesman, says the investigation has advanced a "decisive step" forward.

July 9: In a newspaper interview Piëch says the Basque factory will not be built by VW at this time. It was out of the question, *and he had* told López.

July 14, Washington: US justice department lets it be known it is investigating the López case on its own initiative.

July 15, Hamburg: *Der Spiegel* presents written and oral evidence in the state court in a *bid to prevent VW from stopping* its reporting on the issue. Witnesses contradict López affidavits on several counts.

July 20, Hamburg: Court allows *Der Spiegel* almost free rein. Costs, shared under German law according to the extent to which the parties involved have won or lost, are split 30:70 per cent against VW.

July 20, Wolfsburg: Neumann issues personal statement on his contacts with López, stating that he never wanted, asked for, was offered, received or had any GM secrets.

July 22, Darmstadt: Investigators reveal that boxes from Wiesbaden contain details of a secret Opel mini-car which "should be accessible or made known only to top-level management". Slides and transparencies also found had been collated and translated at the express wish of López. "The investigation will continue with special emphasis on the interrogation of witnesses from VW," the prosecutors' office says.

July 23, Wolfsburg: Inner circle of VW supervisory board summons Piëch and demands explanations and more convincing public response to charges.

July 28, Wolfsburg: Piëch *reacts at press conference*, called at short notice; accuses Opel of mudslinging, conducting an international war against VW and Germany, and suggests – saying, "there were other hands involved" – that GM/Opel planted secrets in Wiesbaden and may have hacked into VW's computers to plant secrets there. He says he has ordered an internal electronic audit.

In Darmstadt, meanwhile, investigators have received from Neumann a detailed chronology of the tug-of-war in early March when Jack Smith tried to snatch López back from VW.

July 29, Frankfurt: Hans Wilhelm Gäb, vice president of GM Europe, describes Piëch attacks as "grotesque". The VW chairman's warlike words suggested a "psychosis-like bunker mentality".

July 30, Wolfsburg: Piëch calls Smith in bid to call off the offensive.

August 2, Detroit: Smith and Piëch talk on telephone. The VW chairman is told there will be no further communications until he withdraws his allegations, and even then any contacts should be in writing with David Herman, Opel chairman.

August 6, Wolfsburg: Klaus Liesen returns from holiday in Majorca to chair an emergency meeting of the VW supervisory board, following signs of wavering support among members, and complaints that they were not being kept fully informed.

López appears to contradict his earlier public claim that he never took any secret documents and tells board that papers from his former offices were destroyed, including "possibly secret or sensitive" GM/Opel material, in Wiesbaden and during his stay at the group's Rotehof guesthouse in late March. The aim was to avoid any danger that such data could be circulated within VW, he says.

The board's statement after the meeting, which pledges López "unaltered support", and says no grounds were found to warrant accusations of industrial espionage, notes: "No possibly secret documents left the possession of former GM employees and came into the possession of VW."

August 8, Rüsselsheim: Opel welcomes the "belated" admission that documents had been destroyed and returns to the attack with a reminder that the investigations also include suspicions of theft, fraud and perjury. "Based on the present status of the investigation, it is apparent that in a concerted action thousands of pages of highly-sensitive data concerning cost-structures, manufacturing and future planning were stolen," Opel says.

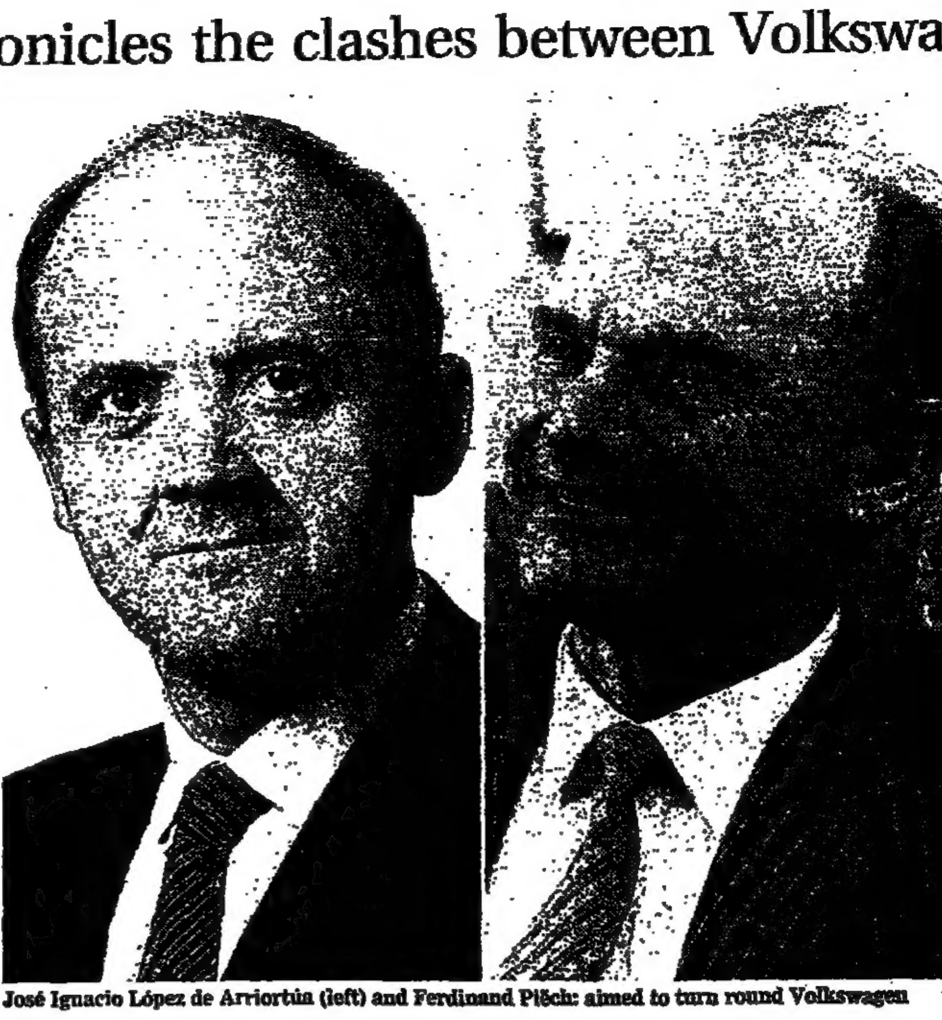
August 12, Darmstadt: Prosecutors interrogate Daniel Goeudevert, the former VW director displaced on July 2. Although out of the inner circle, he is likely to be well-informed on the timing and details of the initial contacts between Piëch and López.

Nauth, the prosecutors' spokesman, says VW witnesses will be re-examined after reports that a female employee had told a third party that she had seen the Opel logo on data she punched into the VW computer system under instructions from an assistant to López.

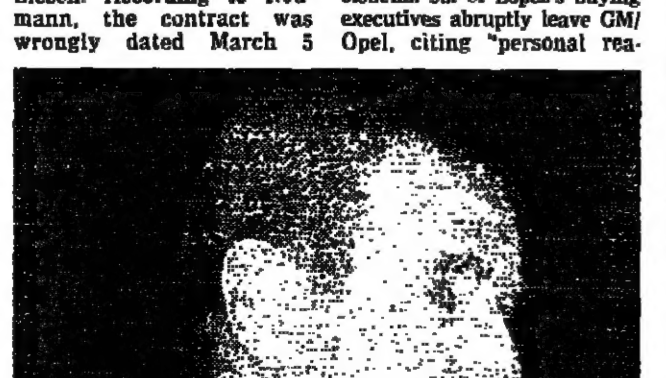
August 13, Rüsselsheim: Opel reveals that the FBI has demanded to see all GM group data and affidavits relevant to the case. According to one company official: "There are box loads of the stuff."

In Wolfsburg, almost 12 weeks after public prosecutors said they had enough evidence to support a criminal investigation, the VW supervisory board says it has appointed auditors, KPMG Deutsche Treuhand, to *carry out an independent* probe within Volkswagen.

August 14, Hamburg: *Der Spiegel claims* a dozen VW trainees punched GM/Opel data into VW computers at the end of March. Volkswagen says it will make no further comments on the case.



José Ignacio López de Arriortúa (left) and Ferdinand Piëch: aimed to turn round Volkswagen



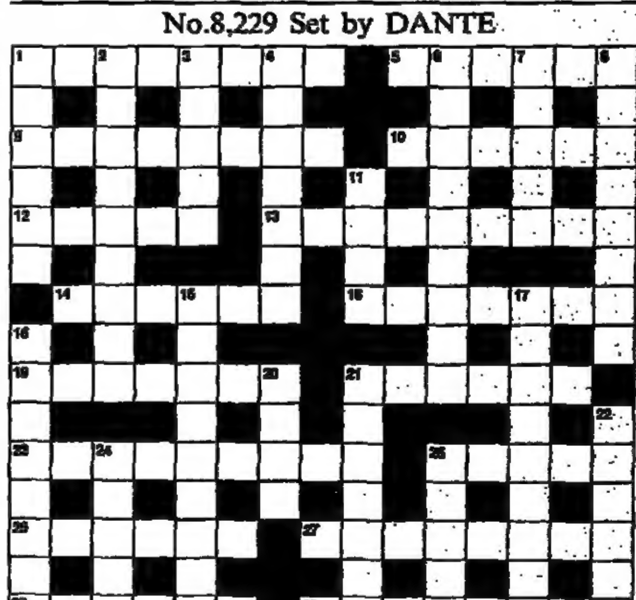
Associated Press

Jack Smith: had chosen López to save GM through cost-reduction

Michael Prowse's column appears on page 12.

CROSSWORD

No.8,229 Set by DANTE



ACROSS

1 Common haunt (8)
5 Stays with a sailor on a date in Rome (6)
9 Find similar shrub in small container (8)
10 A selfish characteristic, no argument about that (6)
12 Ship in river east on the Equator (5)
13 Go to ground if perjury has been concealed (3,6)
14 Pot roasts? (6)
16 Make more records from master (7)
19 In a scramble, can go to this figure (7)
21 Time conceals a deserter's mistakes (6)
23 Thinks the current recession splits friends (9)
25 Fur on one animal (5)
26 A high line to take (5)
27 Response of soldiers being introduced to battle (8)
28 Number of legs (6)
29 Contact him if the motor starts to hesitate (8)

DOWN

1 Iron man? More deadly, according to Kipling (6)
2 Dining at a restaurant or having a picnic (6,3)
3 Show into Poe's house? (5)
4 One sold out of a soup ingredient (7)
6 American stars found in amusement park (3,6)
7 Anxiety shown by redhead coming in late (5)
8 Swirling danseuse from Khartoum, perhaps (8)
11 A drop to drink, right? (4)
15 Bargain to get across (9)
17 Surrender to another country (9)
18 Sleeping partner maybe has scope to finish on the board (4,4)
20 Crackers – or what they're required for? (4)
21 Point behind the ship towards the sunrise (7)
22 The first to reach a sporting conclusion (6)
24 The strain of mourning (5)
25 They may be pointed out in the desert (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday August 28.